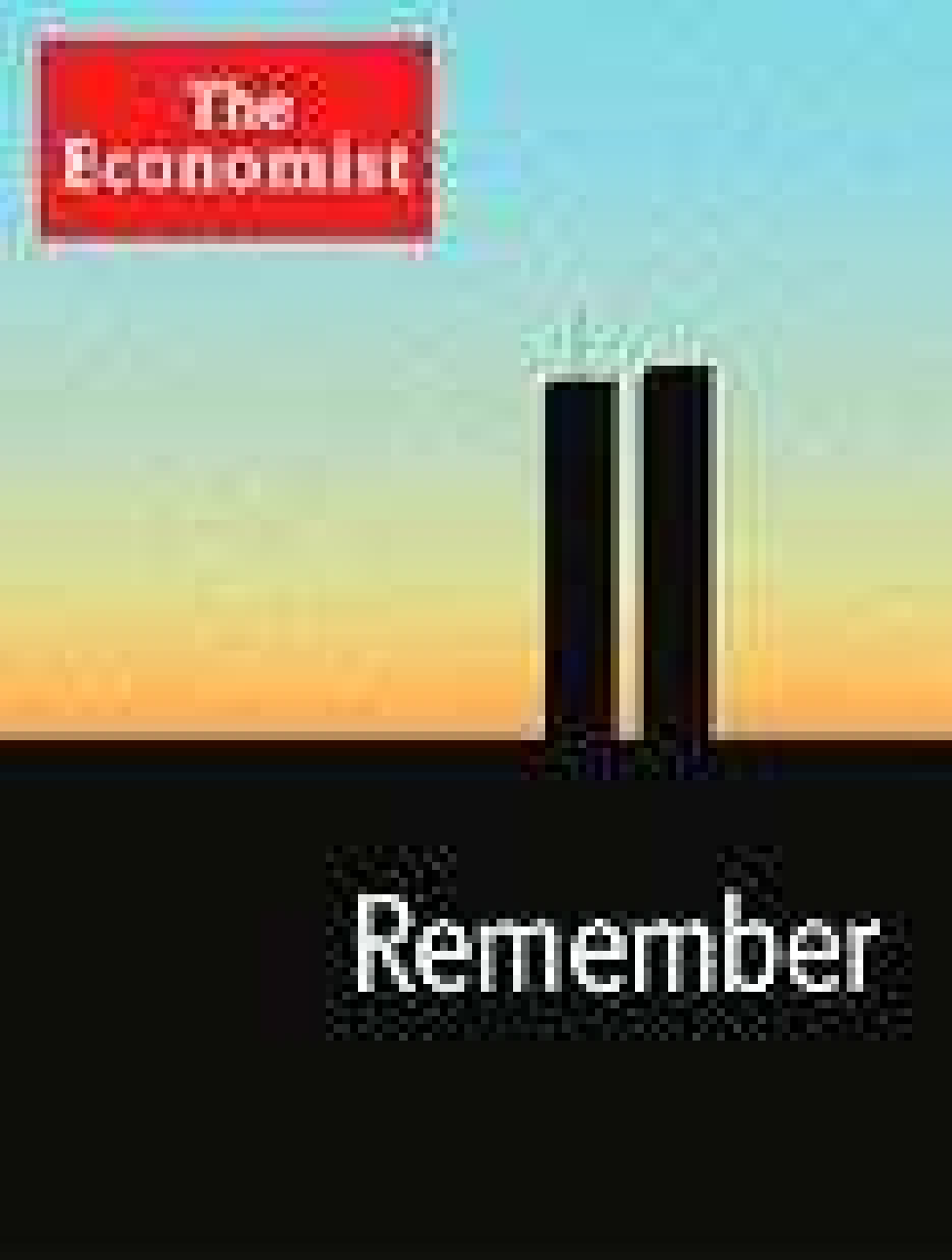
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Print Edition — September 7th 2002

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September 11th changed the world. But not enough … More on this week's lead article

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Politics this week

Sep 5th 2002
From The Economist print edition

Open to inspection?

EPA

Tariq Aziz, **Iraq's** deputy prime minister, told Kofi Annan, the UN's secretary-general, that Iraq was prepared to readmit **UN** weapons inspectors but only as part of a comprehensive settlement that would include the end of sanctions and America's threatened war. America dismissed the offer out of hand.

Arab League foreign ministers meeting in Cairo repeated their **categorical rejection** of an American assault on Iraq.

President George Bush told congressional leaders that he will spell out his **Iraq** strategy to the world when he addresses the UN next week. The issue, he said, is not inspectors but disarmament. He also pledged to consult Congress before taking action.

See article: Mr Bush begins to make his case

A survey of over 9,000 Europeans and Americans found that most would **support military action** against Iraq, but only as a joint allied attack with UN approval.

See article: Differences between Europe and America

Collateral damage

Israel's defence minister called for an army inquiry into the spate of killings of **Palestinian civilians** in the past week. Some 15 civilians have been killed, including several children. Two Palestinian siblings, alleged to have helped their brother (who has since been killed) in his terrorist activities, were forcibly deported from the West Bank to Gaza after Israel's Supreme Court rejected their appeal.

Palestinian radical groups, including the al-Aqsa Brigades, rejected a call from the new Palestinian interior minister to replace armed action with peaceful forms of resistance against occupation. Israeli police said they thwarted a massive car-bomb attack on September 5th.

See article: Fading hopes

The government of **Sudan** suspended peace talks with rebels of the Sudan People's Liberation Army (SPLA), blaming the rebels for continuing to fight during negotiations. The SPLA accused the government of doing the same thing.

The **Johannesburg summit** on sustainable development ended with mixed results. Targets and a timetable were reached for improving water and sanitation. But the United States prevented a target being set for boosting renewable energy. Colin Powell, America's secretary of state, was booed.

See article: The bubble-and-squeak summit

Sam Nujoma, Namibia's president and a friend of Robert Mugabe, said that **Zimbabwe's** current problems had been created by Britain. Mr Mugabe himself rebuked Tony Blair, Britain's prime minister, telling him: “Let me keep my Zimbabwe.”

Ravaged by drought, **Ethiopia** appealed for food aid and other assistance. The World Food Programme estimates that nearly 6m Ethiopians are dangerously hungry.

See article: Ethiopia's food crisis

No-frills hijacker?

A **Swedish man** of Tunisian origin was arrested in Stockholm after attempting to board a British-bound Ryanair jet with a loaded gun. The man, who had taken flying lessons in the United States, was apparently planning to attend an Islamic conference in Birmingham. He is suspected of planning a hijack.

See article: Putting the jigsaw together

A report from the Bosnian Serb government suggested that Muslims may have “imagined or fabricated” the **Srebrenica massacre** and concluded that up to 2,500 Muslims, mostly combatants, were killed when Serbs overran the UN safe area in 1995. The UN and Red Cross say that over 7,000 civilians died.

The government of **Gibraltar** announced a referendum on November 7th to decide on whether there should be shared sovereignty over the territory with Spain, in an effort to pre-empt British plans for a vote on an agreement with Spain over the Rock's future. Britain said it would not recognise the referendum, which is unlikely to favour any Spanish involvement in Gibraltar's future.

Reuters

Shaky policies

The IMF said that “major issues” needed to be resolved before **Argentina** could hope for a loan agreement. An IMF mission arrived in the country to assess the government's economic policies, which are under attack by Congress, the central bank and the Supreme Court.

See article: The government is losing sway to Congress and the courts

In **Guatemala,** a court began hearing charges against three army officers accused of ordering the murder of an anthropologist in 1990. It is the first time that senior military figures have faced trial for crimes committed during the country's 36-year civil war.

In **Peru**, a retired army general and former interior minister was found dead in prison after apparently committing suicide. He was an important witness in the trials for corruption of Vladimiro Montesinos, a jailed former chief of intelligence.

Not me, governor

Andrew Cuomo announced that he was withdrawing from the race for the **New York governorship**, leaving the Democratic nomination open to Carl McCall, the state comptroller and the first black nominee. The Republican incumbent, George Pataki, is still favourite to win.

See article: What a race

A row began about the structure of the new **Department of Homeland Security**, which involves merging 22 existing agencies. Democrats claim Mr Bush is getting rid of existing deals on union membership and workers' rights. The president talked about the need for flexibility.

See article: Measuring America's security

A report by New York city's comptroller estimated that **September 11th** would cost the city $83 billion-95 billion, depending on how many jobs are permanently moved out of the city.

Afghan troubles

President Karzai of **Afghanistan** survived an assassination attempt when two shots were fired at his car in Kandahar. But many died when a car-bomb exploded in Kabul, the worst attack in the Afghan capital since the overthrow of the Taliban last year.

Sri Lanka unbanned the Tamil Tigers, a prelude to peace talks due to start on September 16th in Thailand.

See article: Making peace with the Tigers

Reuters

An **Indonesian** court sentenced Akbar Tandjung, the parliamentary speaker and leader of the formerly ruling Golkar party, to three years in prison for misusing $4.5m of state funds. Critics said the speaker got off lightly. The prosecution had asked only for a four-year sentence, well below the 20-year maximum.

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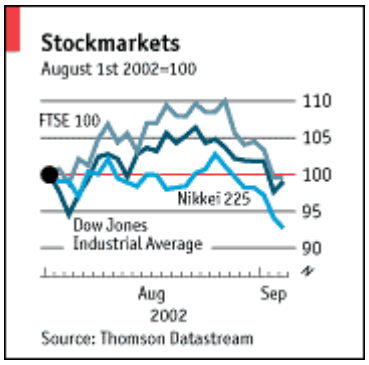
Business this week

Sep 5th 2002
From The Economist print edition

Market jitters



World stockmarkets shuddered. The Dow Jones Industrial Average fell by 4% in a day as nerves showed in the run-up to the anniversary of the September 11th attacks, fears mounted of a war with Iraq and a report suggested that American manufacturing growth in August was flat. Markets around the world followed suit. Japan's Nikkei 225 hit a 19-year low and European bourses slipped.

See article: Wall Street a year after September 11th

American **car sales** surged by 13.5% in August, with General Motors reporting a rise of 18% on a year ago and DaimlerChrysler one of 24% for its Chrysler arm. But the boom was largely caused by zero-interest financing offers, so it is unlikely to last.

Modus Vivendi

Vivendi Universal began the task of putting right its ills—poor results, crashing shares and a debt mountain—by flogging assets. It will sell its 50% stake in Vizzavi, a European Internet portal, to Vodafone, its joint-venture partner, for *euro*143m ($142m) and a clutch of publishing interests to a French publisher, Socpresse, for *euro*330m.

Vodafone was also reported to be close to making an offer for **SFR**, a French mobile-phone company controlled by cash-strapped **Vivendi**. The British mobile company already owns 32% of SFR and could offer as much as £8 billion ($12.5 billion) for the rest.

Bertelsmann, another media company in retreat, is pulling back from its e-commerce activities. **Amazon** was said to be interested in its closest rival, **BOL** Bertelsmann's online book and music operation. Bertelsmann also failed in its bid for **Napster**, a no longer operational Internet music-swapping service. An American court blocked the takeover after opposition from the rest of the music industry.

See article: Giving up on the web

Reports suggested that a study commissioned by **France Telecom** of **MobilCom** cast doubts on the long-term prospects for the German mobile-phone company. The report may help France Telecom, which owns 28.5% of the German mobile company, to make a choice between abandoning MobilCom to bankruptcy or launching a bid for full ownership.

United at the top

UAL, United Airlines' parent company, appointed Glenn Tilton, an executive at ChevronTexaco, to the jobs of chairman, chief executive and president. An early task may be deciding which of his three hats to wear if the loss-making airline files for bankruptcy.

See article: Changing fashions in chief executives

Reports surfaced that **Martha Stewart Living** was planning to replace Martha Stewart (the person) as

its chief executive. Ms Stewart is under investigation over alleged insider trading, which has caused shares in her eponymous company to collapse. The disentanglement of person from brand may prove hard for both.

A Pennsylvania judge granted a temporary injunction against the planned sale of **Hershey Foods** by the trust that owns most of its shares. But the trust will appeal against the ruling.

See article: Trouble in chocolate town

Switzerland's **Roche** sold its vitamins division to **DSM,** a Dutch specialty-chemicals company for *euro*2.2 billion ($2.2 billion). Profitability in vitamins has suffered since the European Commission broke up an international price-fixing cartel in which Roche was a leading figure. Roche will retain liability for any fresh claims arising from the case.

ABB, a Swiss-Swedish engineering group, said that it would sell its finance arm to America's **GE Commercial Finance** for $2.3 billion. ABB will use the cash to cut its substantial debt mountain.

Fallen Citigroup

Shares in Wall Street's leading banks suffered; **Citigroup** led the way. Its shares fell by 10% as fears mounted over potential liabilities at the world's biggest financial-services conglomerate. Problems include congressional investigations into its role in the Enron and WorldCom affairs, and a widening of regulatory probes into allocations of initial public offerings by a subsidiary, Salomon Smith Barney. The IPO practices of other banks are also under scrutiny.

Zurich Financial, Europe's third-biggest insurer, reported a loss of $2 billion for its first half. It confirmed plans to shed 4,500 jobs, over 6% of the total, and to make a rights issue of $2 billion-2.5 billion. The troubled insurer replaced its chief executive earlier this year.

See article: Reinsurance companies

The president, chairman and two other top executives resigned from **Mitsui**, a Japanese trading house, after taking responsibility for bribes allegedly made by the company to a Mongolian official involved in a power-generator contract. Days before, the president and chairman of **Tokyo Electric Power** resigned over cover-ups of faked safety reports on the company's nuclear reactors.

See article: Japanese corporate scandals

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One year on

Remember

Sep 5th 2002
From The Economist print edition

September 11th changed the world. But not enough

IT IS a terrible memory. A memory of four plane-loads of people, setting off on a beautiful morning but then hijacked to their deaths. A memory of thousands of innocent, unsuspecting civilians, of many nationalities, slaughtered when three planes hit the twin towers of the World Trade Centre and one side of the Pentagon; and of many more, lucky to survive but living ever since with the nightmare of that day, one year ago. It is a memory, also, of how the world looked a moment before 8.48am on September 11th 2001, and of how, by the end of that day, the world was different.

A year later, much more has changed, and mostly for the better. An America that Osama bin Laden and his al-Qaeda terrorists wanted to frighten, proving that the world's greatest power was actually weak, vulnerable and cowardly, has shown a remarkable resolve. Its patient but determined use of military power in Afghanistan, and threat of it in Iraq, has created more fears of its strength than contempt for its weakness. Afghanistan was liberated from the Taliban, al-Qaeda's bases and forces there were destroyed or scattered, and that war-torn country managed to choose its own provisional government. An astonishingly broad alliance backed America in that war, and the two old superpower foes—Russia and China—were respectively supportive and acquiescent.

Some of the successes lie in what has not happened rather than what has. America has not turned in on itself, seeking to hide from a hostile world: rather, its international engagement has been reinvigorated, even if its tolerance of opposition or of compromise in that engagement has diminished. The process of globalisation has not been put into reverse, either by the demands of security or by a disenchantment with open markets: if anything, the chances of a new round of trade liberalisation have increased, despite a weak world economy. And, most important of all, if Mr bin Laden and his sort hoped that their atrocities, and the American military response to them, would bring to life a mass movement in the Islamic world, they have so far been sorely disappointed. Not in Pakistan, not in Saudi Arabia, not in Egypt, not in Palestine, not in Indonesia, not even in Afghanistan itself have the numbers fighting, or even marching, against America ever gone beyond a few thousand at a time. Moreover, there has been no big terrorist success since September 11th, although several attempts appear to have been thwarted.

What has not happened may be as encouraging as what has. America has not turned in on itself, seeking to hide from a hostile world

That is where, for all the success, the memory becomes important again. In at least one vital respect the world has not changed in the past year. This is that the sort of extremists who carried out the slaughter on September 11th could do so again. Their operations have been disrupted, their hopes may have been disappointed. But last year's attacks took just a handful of people, with a handful of money, using low-technology methods. The ability of police and intelligence services, in America but also elsewhere, to stop them has improved, but not to such a degree as to provide a true sense of security. Anyone who believes the risks are small should think back to September 10th last year, when the risks also looked small; and should then ask themselves whether the attitudes and perceived grievances that persuaded 19 well-educated men to kill themselves and thousands of civilians have meanwhile changed or gone away.

The dangers of the status quo

It is nigh on impossible for normal people to put themselves into the minds of the sort who planned or carried out last year's slaughter, which makes it also hard to be sure whether others are now more, or less, likely to do something similar. A few things are clear, however. One is that, although no mass anti-American movement has emerged, there are still plenty of extremists in the Islamic, but especially the Arab, world. Another is that the march of technology is making it easier all the time for such groups to plan atrocities but also to use the ghastliest weapons. Third, and perhaps most important, is the fact that all the possible sources of anti-American anger, justified or not, remain intact: bases in the Saudi holy lands; sanctions and "no-fly" zones for Iraq; bloody conflict in the Middle East, with American support for Israel; and repressive, alienating Arab regimes, especially in Egypt and Saudi Arabia, that are thought to enjoy America's backing.

In the past year, the biggest changes have come in America and in Central Asia, both in Afghanistan and in the surrounding countries (see articles here and here). Now, and for the coming year, the main debate is over whether the next wave of change will or should come in the Arab world, begun with a "regime change" in Iraq but not ending there (see articles here and here). Or whether to attack Saddam Hussein would be to take an unnecessary risk, damaging in its own right but also destabilising for the rest of the Arab world. Or, in the end, over whether there is any link between the memory of September 11th 2001 and the danger of Mr Hussein and his chemical, biological and nuclear weapons.

The events of September 11th showed what unscrupulous, murderous people can achieve. But they also showed how dangerous is the status quo in the Arab world

For the past few months, this debate has become frenzied but incoherent. The great virtue shown since September 11th by America in general, and President George Bush in particular—that patient determination—has become a vice on this issue. The more time that goes by without a clear decision from him on what America will do, in Iraq itself but also with regard to the United Nations, the more that a vacuum has been created into which has rushed confusion, rumours of divisions within the administration or between America and its supposed allies—and Iraqi ministers seeking to sow even more confusion and division.

Now, at long last, an effort seems to be under way to create coherence—or, at least, to provide a coherent decision about which to argue. This weekend, Britain's prime minister, Tony Blair, is to fly to President Bush's official retreat, Camp David, for talks about Iraq; Mr Bush says he also plans phone conversations with the leaders of France, China and Russia, the other three permanent members of the UN Security Council; and on September 12th Mr Bush is due to address the UN General Assembly, which gives him a fine opportunity to present his plans, his arguments and some of his evidence.

Much of that effort at persuasion, and much of the debate about it, will centre on Saddam Hussein. So it should: the Iraqi dictator's violation of international agreements, his efforts to obtain weapons of mass destruction, his willingness to use them against his own people and his neighbours, his declared territorial ambitions, all make him a dangerous man who needs at last to be removed from power. But as that effort, and the debate, proceeds, the memory of September 11th needs also to be kept firmly in mind. The events of that day showed what unscrupulous, murderous people can achieve. But they also showed how dangerous is the status quo in the Arab world in general, of which Iraq is but a part.

If terrorist attacks by groups such as al-Qaeda are to be made less likely in future, that status quo needs to be changed, in numerous ways. Those ways do begin with Iraq, for the current policy of containment through debilitating sanctions and bombing raids from bases in the Gulf is not sustainable. They also, though, begin in Israel and Palestine, where a parallel effort needs to be made to create circumstances in which the two states can live securely side by side. And they move on to the Arab countries themselves, where at the very least the blame for those nations' economic and social failures needs to be pinned on the local regimes, not on outside powers, which are forced by history or convenience to support them.

In the coming months, probably the most seductive argument that will be deployed against a war in Iraq will be the idea that it would threaten the Arab world's stability. Yet it is that very stability—or, rather, sterility—that created al-Qaeda, its supposed grievances, and September 11th. Remember.

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Japan and North Korea

Koizumi's gambit

Sep 5th 2002
From The Economist print edition

Coaxing North Korea in from the cold

Reuters

Get article background

JAPAN'S Junichiro Koizumi may be about to discover, like others have before him, that it is easier to make history with prickly North Korea than it is to make progress. On September 17th, he plans to become the first ever Japanese leader to call on its reclusive boss, Kim Jong Il. He has a lot to talk about: the Japanese citizens abducted by North Korean agents over the years, the rockets that now have all of Japan in their firing range, and the nuclear and other ambitions that make North Korea a founder-member of George Bush's "axis of evil". His North Korean host, meanwhile, demands $10 billion or more in compensation for Japan's past colonial rule. Might the planned Koizumi-Kim talks nonetheless signal a thaw in the North's frost-bitten relations with Japan, South Korea and America? Or will history repeat itself—as farce, or worse?

Two years ago, South Korea's President Kim Dae-jung made his own "historic" journey north, proffering generous dollops of aid and investment for North Korea's clapped-out economy. He returned with promises that his northern namesake would pay a return visit to the South, that divided families would be allowed to meet, that economic contacts would flourish, allowing the first official breaches (a road and rail-freight link were mooted) in the cold war's final frontier. A few families have been briefly reunited, at a price. But it turned out that the northern Mr Kim wanted only to shore up his own communist-cum-feudal regime. He swiftly retreated behind a wall of hostility, pocketing all the cash and goodies he could.

Will he behave better this time? There are some encouraging signs. He has launched a round of economic reforms—"perfecting communism", his officials insist—though it is unclear whether as a prelude to a wider economic opening, or simply in a desperate effort to stave off ruin (the flow of North Korean escapees—another 15 or so sought asylum at diplomatic premises in China this week—steadily increases). Yet it is South Korea, Japan and the United States that Mr Kim has to deal with if he wants to end his pariah status and draw in the investment needed to rebuild decrepit roads and factories. Economic talks with South Korea did resume last month. Hoping to be struck off America's list of states that sponsor terrorism—and thus become eligible for help from the likes of the IMF—North Korea has signed some UN anti-terrorism conventions, and may be about to hand over four ageing Japanese terrorists it had been harbouring.

In the light of all this, America and South Korea have lent Mr Koizumi their support. But if he is to advance the cause of peace on the peninsula, there are some pitfalls to be avoided.

History in the making

The summit was Mr Koizumi's idea, boosting his sagging ratings at home, so he is under pressure not to return empty-handed. But nothing could be better than something, if the something he is offered is a deal that would breach the common front that Japan, South Korea and America have achieved in facing down the threat from North Korea.

The North has tried wedge-driving before. It attempted to talk South Korea into supplying it with vast amounts of electricity. But that would have enabled it to wriggle out of a deal it struck with America in

1994 to abandon its production of bomb-making plutonium in return for two nuclear-power reactors and supplies of oil. Before the nuclear components of the reactors arrive, North Korea must come clean to international inspectors about its past nuclear activity. Loth to do so, it may yet hope to coax enough aid from Japan to give it the wriggle room it needs to keep the inspectors at bay.

In fact North Korea already receives food aid for its half-starved people. Mr Koizumi's message should be that more aid and better relations can be had, not just from Japan but from South Korea and America too, but in return for verifiable steps to reduce the danger North Korea poses all round—from its missiles, from its missile sales to unstable parts of the world, from its nuclear-, chemical- and biological-weapons dabbling, and from the array of troops and guns dug in just across the border from the South Korean capital, Seoul. If Mr Koizumi's visit were to kick off wider talks on a deal of that sort, he could indeed claim to be making history—not faking it.

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Sri Lanka

Talking with Tigers

Sep 5th 2002
From The Economist print edition

The best chance for peace in two decades

Get article background

AP

THE Tamil Tigers, one of the world's most vicious terrorist organisations, were unbanned on September 4th by the Sri Lankan government that has spent the past 19 years fighting them. To many Sri Lankans, especially those whose relatives have been killed in suicide attacks and bombings, or driven out of their homes in the north and east of the island, legitimising the Tigers will seem like an obscenity. To many Tiger foot-soldiers, the prospect of negotiations, due to begin at the Thai resort of Sattahip on September 16th, yielding anything less than the full independence they have fought for will seem like a sell-out. But in the interests of ending a war that has crippled an otherwise beautiful and bounteous country, both sides will have to make some difficult sacrifices.

Talking to terrorists is never palatable. But the government has been unable to defeat the Tigers militarily, despite emptying its own treasury in the attempt. Though treated with respect rather than love by the Tamil population of Sri Lanka, the Tigers are broadly supported and assisted by them. Only they, after all, have been able to advance the case for greater rights for the Tamils—a minority in the island as a whole, but a majority in the north-east. In such circumstances, an accommodation is the only realistic alternative to an endless and costly war. Whether that amounts to rewarding terrorism depends on what happens next.

Concessions from the government side will have to be matched by similar wisdom on the part of the Tigers' leadership. It is impossible to know what the Tigers' bottom line is, but there is some reason to hope that they do now recognise that their main demand, for an independent state in the north-east, will never be acceptable to Sri Lanka's government. Such a constitutional change would need to be approved by the Sri Lankan parliament. There is no prospect of this happening, because of the strength of Sinhalese nationalist parties in the parliament chamber.

Autonomy but not independence

Nor should it. It is far from clear that the north-east of Sri Lanka meets the tests required for statehood. At least until the Sinhalese were driven out over the last ten years or so, the areas, with the exception of the Jaffna peninsula, were shared by Tamils, Sinhalese and Muslims, and the Muslims, who still remain there, have no desire to see themselves abandoned to a Tamil state. Historically, too, there is no convincing case for such a creation. What there are, however, are legitimate grievances on the Tamils' side. Independent Sri Lanka has treated the Tamils badly, most notoriously in the 1972 constitution, which proclaimed Sinhala to be the official language.

Fortunately, there are signs of flexibility from the Tigers' leader, Velupillai Prabhakaran. His goal of a Tamil “Eelam”, or homeland, might, he has suggested, be met by something less than an independent state, and more like an autonomous region. That still raises the fear that any such area might become merely a fief for Mr Prabhakaran and his henchmen. But there is some reason to hope otherwise. In the absence of a peace deal, moderate Tamil parties have felt they have no option but to accept the Tigers' leadership. Once an accommodation is reached, different Tamil voices will have a chance to be heard. Sri Lanka has had many false dawns, and deals have been struck before over this issue, only to unravel. But

there is much to play for in Sattahip.

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The Johannesburg summit

Small is all right

Sep 5th 2002
From The Economist print edition

Was the sustainable-development summit a wash-out?

"FOURTEEN hours to help save the world." So screamed a headline in Britain's *Guardian* newspaper earlier this week. Such agitation reflected the sentiments of many of the lobby groups at the UN summit on sustainable development, which concluded on September 4th. But now the summit is over, and those crucial final hours were spent, apparently, to no great effect. The planet is presumably doomed.

Either that, or the *Guardian*'s headline and many others like it were idiotic. That in fact would be our guess.

If the world had needed saving, it would have been wrong to expect an event such as the UN summit to rise to that challenge in the first place. Happily, though, the world does not need saving. On most measures, both human welfare and the environment are getting better, not worse. Particular problems, such as AIDS and climate change, do need more attention and international co-operation. When it comes to curbing poverty, on the other hand, international co-operation is not the main thing that is needed. In any case, it is ludicrous to suggest that the earth is in grave peril.

The right criterion for assessing Johannesburg is the progress made on a narrow set of issues that fall at the intersection of poverty and the environment: water, energy, fisheries and farming. Here, the summiteers actually achieved a modest success (see article).

Despite resistance from the European Union, the final declaration includes a promise to phase out farm subsidies. There is no way to enforce this undertaking—but still it may prove useful in shaming countries such as France when they next obstruct farm reform. The same goes for a promise to restore the world's ailing fisheries.

More encouraging still is that such humdrum topics as septic systems and cow-dung fires rose to the top of the agenda. The reason is that unsafe water and sanitation, and dirty energy use, make up the leading preventable causes of death in the developing world. The summit agreed to a firm timetable and target for improving water and sanitation. It also agreed to tackle "energy poverty", while rejecting a firm target for boosting renewable energy.

Humdrum topics such as septic systems and cow-dung fires rose to the top of the agenda. Rightly so

It might seem odd to have set a target for water and sanitation but not for energy—but this was probably right. Digging boreholes or building lavatories pose no great technological challenges: political will is the real barrier to progress on these issues. Energy poverty, in contrast, is more difficult. The technology is evolving rapidly. Forcing expensive, complicated and soon-to-be-outdated methods on poor villagers has little to recommend it.

It would be far better to stop governments from rigging energy markets in ways that encourage waste and pollution while holding back the poor. Many rich countries subsidise domestic fossil fuels and the export of power plants which use those fuels. Poor countries often subsidise grid electricity for their urban elites—leaving less power and money to help the poor in the countryside. The summit may not have tackled these failings head-on, but it did agree to intelligent language on phasing out "environmentally harmful" subsidies.

In praise of non-government opportunities

The summit also marked a shift in the role that agencies other than governments—be they green groups, charities aiming to relieve poverty, or big business—can play. Dozens of new partnerships were launched to tackle specific local problems, and hundreds of existing ones were examined and discussed. This marketplace of ideas and experiment is the nitty-gritty of sustainable development. UN officials even announced that they were ready to bypass governments and directly finance firms that offer employees treatment for AIDS.

The prominence of business led many to complain that the summit was hijacked by “free-market ideology”. If only. As the litany of ongoing subsidies for pollution and squandered resources makes clear, there was never any danger of that.

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America's monetary policy

Greenspan's bubble bath

Sep 5th 2002
From The Economist print edition

If the Fed had popped America's bubble sooner, its economy would be healthier

SINCE early 1998 *The Economist* has repeatedly argued that the Federal Reserve should have tightened policy sooner to let some air out of America's economic and financial bubble. This view won us few friends in America; most commentators even denied that it was a bubble. Yet most now agree that it was perhaps the biggest financial bubble in American history. It has also been the biggest bust, with almost $7 trillion knocked off share values since early 2000—more, as a share of GDP, than after the 1929 crash. As the imbalances created by this bubble continue to hold back America's economy, more people are starting to point the finger of blame at the Fed.

Such criticism last week provoked Alan Greenspan, the Fed's chairman, to defend his record (see article). Mr Greenspan argued that central banks cannot use interest rates to prick bubbles in their early stages because they can never be sure if there is a bubble or not. Moreover, he said, interest rates are a crude weapon. A rise in rates sufficient to prick a bubble could push the economy into recession.

Dealing with bubbles is devilishly difficult, but Mr Greenspan overstates his case. Uncertainty should not mean inaction: central banks do not shy from stamping out inflation just because they are unsure about the size of the output gap. And if by pricking a bubble a central bank causes a recession, that may still be better than the alternative of letting financial imbalances worsen, raising the spectre of a much deeper recession when the bubble eventually does burst. The longer the party continues, in short, the worse the eventual hangover.

The job of a central bank is not just to prevent inflation, but also to ward off threats to economic and financial stability. Central banks should not set targets for asset prices. But a sharp rise in share prices accompanied by a big increase in borrowing should set alarm bells ringing. Heavy borrowing leaves firms and individuals dangerously exposed: when asset prices collapse, the nominal value of their debts remains fixed, creating severe balance-sheet problems for households and firms—as Japan has painfully discovered since 1990.

It would have been better if the Fed had raised interest rates earlier in the late 1990s to head off America's stockmarket boom. Yet its mistake was understandable, because central banks do not have a mandate to prick asset-price bubbles. The awkward truth is that bubbles are popular. The public regards high inflation in the prices of goods and services as a bad thing, but rising property and share prices as good things. Central banks' independence goes only so far. If the Fed had raised interest rates when inflation was low and succeeded in pushing down the stockmarket, thereby trimming the wealth of the 50% of Americans who own shares, Congress might have been tempted to curb the Fed's power. No wonder central bankers prefer to let bubbles pop in their own good time. But if, as a result of its bubble bursting, America now suffers several years of sluggish growth, or worse, they may think again.

A less forgivable mistake was that Mr Greenspan acted as something of a cheerleader for the “new economy”. Even if some of the increase in productivity growth was real, his enthusiasm contributed to investors' euphoria. They seized on all of his comments to justify their bullishness about future profits. Ironically, Mr Greenspan was among the first to give warning of a bubble in 1996, drawing attention to the market's “irrational exuberance”. What a pity he failed to put America's monetary policy where his mouth (briefly) was.

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Letters

Sep 5th 2002
From The Economist print edition

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A fertile subject

SIR – You fail to suggest the most obvious reason for America's recent fertility increase ("A tale of two bellies", August 24th). American economic life has become far less secure over the past 25 years, and more than anything else changes to economic security are associated with changes in national fertility rates. Numerous studies and observations uphold the hypothesis that fertility rates are negatively related to increases in financial and economic security.

What does this say about American capitalism? Increased fertility rates will exacerbate the problem of public investments, especially in children, as reflected in our worsening capacity to create much of our own human capital in schools. If living standards rise in nations that typically supply us with market-ready human capital, our ability to attract this subsidy to GDP growth could fall. We may then suffer flat or falling growth per head that would take decades to reverse.

Dalton Garis
City University of New York
New York

SIR – While Europeans are far from perfect in the environmental sphere, at least we are trying to deal with our mountains of consumer waste and tackle other green issues. The average American is by far the most profligate user of natural resources in the world and the biggest emitter of most pollutants. Without a drastic alteration to lifestyles, the prospect of another 200m Americans bodes ill for our suffering planet.

Stephen Psallidas
Newcastle

SIR – You miss one exception to Europe's falling fertility. France is enjoying *un mini baby boom*. It is now fashionable for couples to have three or four children. Some of the reasons are puzzling. Many are not: wonderful kindergartens, financial aid for families, amenable school timetables and shorter working weeks that help women to keep their jobs and raise children at the same time.

Christian Gerondeau
Paris

SIR – Remarkably, Americans are having more children despite the absence of the generous maternity leave that is the norm in Europe and the rest of the industrialised world. Why? America may not be a convenient place to have children but it is a great place to raise them.

Adrian Ng'asi
Kelly Curran
Silver Spring, Maryland

SIR – Much of the reason for fertility levels in America can be gleaned from Lexington on the growth of religious fundamentalism (August 24th). The fertility trend correlates with the rise of the "teach abstinence only" approach to sex education in American schools. Increased funding and support from the Bush administration means that more of America's young are denied medically accurate sex education.

This sad fact stands in the way of efforts to reduce teenage pregnancy. A younger age structure is both good and bad, and being a “mistake” in your parents' eyes does not doom you to failure but it is hard to see it as a helpful start.

Sara Seims
President and CEO
Alan Guttmacher Institute
New York

Apocalypse, soon?

SIR – Lexington's views on millenarianism in America lack psychological, historical and maybe even geographical perspective (August 24th). The “In case of Rapture, this car will be driverless” bumper stickers were a fad that was hardly limited to north Florida and simply meant “I'm holier than thou”—not exactly a new sentiment. The “Left Behind” series is popular entertainment. The biblical references resonate especially strongly in middle-America with its high proportion of Christians but readers no more constitute a cult than fans of other science fiction, and probably less so than fans of Star Trek.

As far as millenarianism in politics goes, both Pat Robertson, a former presidential candidate, and James Watt, a former interior secretary, believed that the end is nigh. Mr Robertson was sure his children would see it if he did not. Mr Watt's beliefs implied that conservation of natural resources was not merely useless but actually wicked as God had provided exactly the right amount of coal, oil, etc, and it was an offence not to use it. Many people believe in some general way that the world will end in chaos but they still want their Social Security benefits. Any politician who hopes to survive will put that concern over the apocalyptic horrors of Revelation.

Walter Read
Fresno, California

The Czech past

SIR – There are several legacies of the Benes decrees that leave room for concern; to raise them is hardly populism (“A spectre over Central Europe”, August 17th). If we rightly condemn ethnic cleansing in Bosnia in 1992, then how can it have been acceptable in 1945? If the issue is, as you say, a matter of “ancient wrongs” then why is this not applied to the Holocaust? Does a state have the right to declare a group to be no longer a part of its demos simply because it is ethnically different? Can a democratic state like the Czech Republic ever live at ease with Germany and Austria unless it comes to terms with the undemocratic acts committed in 1945?

George Schöpflin
London

Stem cells in Singapore

SIR – You allege that Singapore's main draw for top scientists is our “permissive climate for research” and that no country has gone further in its guidelines for stem-cell research (“Send in the clones” August 24th). This is inaccurate. Singapore's government has accepted recommendations by Singapore's national Bioethics Advisory Committee (BAC) on human stem-cell research. These were made after an extensive survey of current practices in the leading jurisdictions and after consultations with religious and community groups in Singapore. The recommendations incorporate good precedents practised in other countries and are not more liberal than, for example, those prevailing in Britain.

In accepting BAC's recommendations, the government intends to enact legislation where all human stem-cell research conducted in Singapore will have to be approved, licensed and closely monitored by the Ministry of Health. Singapore's approach is to ensure that the human benefits of stem-cell research could be derived without compromising ethical standards.

Karen Tan
Press secretary to the minister for health
Singapore

Urgent business proposal

SIR – You tell us to beware of e-mails that promise riches ("Scam of scams", August 24th). I receive a great many—all from relatives or business associates of deceased African rebels or dictators. It is nice to be singled out for my "honesty and integrity" so often but my usual response is to forward the e-mail to "abuse@" followed by the domain name of the sender. Of course, there is a fantastic way to turn the tables on these rascals and so profit from their greed. I will be happy to provide details of this scheme to each reader who sends me $50.

Mike Conradi
London

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A year on

Night fell on a different world

Sep 5th 2002 | WASHINGTON, DC
From The Economist print edition

AP

A look at the “different world” (in George Bush's words) that has emerged from the terrorist attacks of September 11th 2001

HIGH on the buildings around One World Trade Plaza, three cameras peer into the abyss. They are recording the history of the site's rebuilding in photographs taken at five-minute intervals. Had they been there that terrible day, they would have recorded the destruction of the World Trade Centre as a more sudden vanishing than the billowing cloud the world saw.

Since then, for the past few months, the time-elapsed photographs have shown little change: a few workers move places, but the site remains empty. Strung together over coming years, however, those snapshots will show a new building being raised, like an unfolding flower in a nature film. America's history since September 11th has been a little like that: a sudden transforming moment, then a period of stasis (which continues), leading to a new construction yet to be decided.

September 11th has been a transforming event not just because of its enormity, but also because of the nature of the attacks. Fifty thousand Americans were killed in a decade of fighting in Vietnam. They were combatants, dying on battlefields. Over 3,000 people were murdered in a morning in New York, Washington and Pennsylvania. They were going about their daily lives until death came literally from a clear blue sky. Americans were no longer safe on their mainland—something that had not been true of the Vietnam, Korean or second world wars.

One of America's founding myths is that it is a place apart, a continent protected by high seas. From Thomas Jefferson's warning to the new republic against “entangling alliances”, to Ronald Reagan's summons to his fellow citizens to build an ideal “city on a hill”, Americans have seen their country as a safe, separate place. This made them profoundly different from Europeans who, with the exception of Britons, live with a recent past of invading soldiers in their homelands. No invaders have attacked America since 1812. Walter Russell Mead of the Council on Foreign Relations calls the result a “myth of virtuous isolation”. It has long been part of what makes America different.

A year ago, that myth was shaken. Stripped of their blanket of distance and inviolability, Americans found themselves at war in Afghanistan, and possibly about to widen the conflict to Iraq. They also began, albeit modestly, to flirt with some of the characteristics of a nation organising itself for war at home: tightening security, sometimes at the cost of civil liberties, and creating a new government department for homeland defence. By introducing Americans to an experience already shared by others, the attacks made America more like the rest of the world. At the same time, they tested—and, in some ways, reinforced—the nation's sense of itself as a place apart.

In his 1996 book “American Exceptionalism”, Seymour Martin Lipset argues that Americans “exhibit a greater sense of patriotism, and of belief that their system is superior to all others...than the citizens of other industrialised democracies.” Opinion polls in the mid-1990s confirmed this. “Do you think your country is better than any other?” Yes, answered 80% of Americans. “Would you rather be a citizen of your country than any other?” Yes, said 90%. “How proud are you of your nationality?” Very proud, said 86%.

Even before September 11th, therefore, Americans were easily the most patriotic nation in the world (in contrast, only 54% of Britons and 35% of the French said they were proud of their countries). After September 11th, love of country went off the scale. “Do you think Americans are more patriotic than before the attacks?” Yes, 85%. “Do you think Americans have appreciated their country more?” Yes, 87%. Since American patriotism is closely associated with optimism—logical enough, if yours is the best country in the world—there was a spike after September in the number of people who thought the country was going in the right direction.

AP

Americans have long been unique among democracies for their religiosity: 36% say they think the Bible is the literal word of God, half say they think America enjoys divine protection. After September 11th, 78% said they thought religion's influence in public life was growing. Books on the apocalypse became bestsellers.

Post-September patriotism was also a coming together. In particular, it meant celebrating the blood-and-guts virtues of blue-collar workers—the firefighters and police officers who don't design computer programs but who ran into the World Trade Centre to save lives. Three hundred and forty-three firemen died in New York on September 11th. Theirs was not a world where bosses make off with billions while the workers lose their pensions. A fifth of them were chiefs, captains and lieutenants who died with the rank and file.

The measures of optimism and church-going have since fallen sharply, suggesting that part of the post-September rally was the temporary reaction of an outraged nation. Even so, some effects have lasted: this year, for instance, the army met its recruitment target in record time, suggesting that the obligations of citizenship were being taken up more enthusiastically. More important, the intensity of the reaction reminded Americans of some old-fashioned virtues: love of country, respect for religion, social cohesion.

The patriotic affirmation did not therefore produce anything very new. It merely strengthened old mentalities and deep-seated beliefs. In that sense, the impact on America's view of itself was modest.The effect on America's view of the world may prove, in time, more profound.

The froth blown away

Changes to domestic politics were less dramatic than many had expected. True, Donald Rumsfeld usurped Gary Condit in the nation's attention. People talked about burqas, not Monica Lewinsky's dress. Public service came to seem more important (and, after Enron, more honest) than commercial life. Rather as the attack on Pearl Harbour had shaken America out of its self-absorption after the booming 1920s and the Depression, so September 11th did the same for the boom and bust of the 1990s. The heady enthusiasm for Pets.com or Napster seemed faintly embarrassing.

Much of this was merely a matter of blowing away the froth from the 1990s. Not all of it was connected with September 11th, anyway. And in some respects the “new seriousness” has proved temporary. Americans' interest in foreign news, for example—intense in October and November 2001—faded quickly.

Reuters

The same was true of party politics. Because September 11th reaffirmed old attitudes rather than created new ones, political life changed comparatively little. In the weeks after the attacks, there was some hope that partisanship would be limited; that trust in government would be restored; that national security would establish itself at the heart of political debate; and even that the so-called “50:50 nation”—the electoral divide revealed by the

2000 election—would be mended. None of this happened.

Mid-term elections are two months away, and the main issues in the public mind are the economy, corporate corruption and health care. The two parties are again deadlocked. After the attacks, public confidence in the institutions of government briefly surged: trust in the presidency, Congress and public service itself all soared to levels last seen in the 1960s. Yet, with the partial exception of the president's own popularity, those measures have returned to normal.

America is barely recovering from recession, but this has little to do with September 11th. The downturn had started well before that day, and the recovery began soon afterwards. The weakening of the economy that took place this year has had more to do with Ken Lay, Arthur Andersen and WorldCom than with Osama bin Laden or al-Qaeda. The direct economic impact of September 11th was minimal, though the indirect effect—particularly the splurge in government spending that resulted—may affect the economy for some time.

So it was not exactly as if the attacks of September 11th had never happened. Rather, it was as if they had been a bolt of lightning that brilliantly and briefly illuminated the landscape without changing it. The storm passed. President Bush called upon Americans to go back to shopping and air travel, not to make special sacrifice for war. In some ways, there seems little that is new in post-September America. But if that was so domestically, internationally things were very different.

To the Bush administration, the attacks ushered in a new era in international relations. “I really think this period is analogous to 1945-1947,” said Condoleezza Rice, the national security adviser, “in that the events started shifting the tectonic plates in international politics.” She was exaggerating a bit. Some shifting had begun long before. But, by and large, she was right. America found itself wanting to reorder the world—a world that, in some respects, proved surprisingly receptive to that aim.

Once in a lifetime

Nobody was quicker to respond, or more decisive in pushing through policy change, than Russia's president, Vladimir Putin. He accepted the abrogation of the 1972 anti-ballistic missile treaty, the deployment of American soldiers in the former Soviet republics of Central Asia and Georgia and the possibility of a big expansion of NATO.

Reuters

Conversely, few countries were more nervous about the new conditions, or more hesitant about policy changes, than members of the European Union. When Mr Bush called the war against terror “the focus of my administration”, he made explicit what had been evident since the end of the cold war: Europe is no longer the front line of the strategic struggle that fires the American administration. That did not mean it was irrelevant; since September 11th, intelligence-sharing has deepened dramatically. But it meant that the transatlantic partnership was no longer at the centre of America's world view.

Surveying this fluid scene, Ms Rice argued that it offered a once-in-a-lifetime opportunity. “It's important to try to seize on that and position American interests and institutions before they harden again.” In grabbing this chance, the administration, rather like the public, reverted to type—to a take-it-or-leave-it unilateralism tempered by occasional confusion within its ranks. In this respect, at least, there was a kind of continuity even in foreign policy.

Soon after September 11th, John Gray, a British historian, claimed that “the era of globalisation is over.” Two months later, members of the World Trade Organisation, meeting in Doha, launched a new round of trade liberalisation. They did so partly in response to September 11th. Bob Zoellick, the United States trade representative, argued that freer trade was part of the fight against terrorism. Despite financial meltdowns in Latin America and the administration's politically-motivated espousal of steel- and farm-protectionism, September 11th did not slow the pace of globalisation.

More broadly, there have been no signs of the administration retreating into 1930s-style isolationism. In the months after September 11th, Mr Bush proposed increasing development assistance by 50%. He sent troops to countries as far apart as Colombia, Pakistan and the Philippines. As Jessica Mathews, the president of the Carnegie Endowment for International Peace, argues, “the most dramatic effect of this

year has been the tremendous extension in America's foreign engagement."

But this did not mean the administration was toning down its earlier unilateralist impulses. Rather, that patriotic upsurge reinforced its America-firstism, shaping its responses and explaining why it acted as it did. This is why the reassertion of American exceptionalism had big foreign-policy consequences.

Take the outbreak of patriotism first. This was a reminder that Americans, more than Europeans, see the nation as the ultimate repository of sovereignty and law. They may argue about the extent of federal powers. But Americans remain out of sympathy with European notions of international law or pooled sovereignty. Indeed, their constitution forbids the transfer of Congress's sovereign powers. America's own system is best.

Against a background of renewed patriotism, it was hardly surprising that an administration which was anyway inclined towards unilateralism made few moves towards multilateral engagement. It fought bitterly against the establishment of the International Criminal Court, rejected suggested new enforcement provisions for the Biological Weapons Convention, and refused to send the comprehensive test-ban treaty to the Senate a second time for ratification. And it raised the theoretical possibility of designing and testing a new generation of nuclear bombs.

This has dashed broader hopes that America might create a global alliance against terror, which the president himself had raised when he told cadets at the Citadel, a military school in South Carolina, that "a new threat to civilisation is erasing old lines of rivalry and resentment between nations." In fact, the administration made little attempt to put that into practice. By raising the stakes, September 11th may have made the administration more, not less, determined to pursue its national interests in its own way.

Evil and its variants

The second aspect of American exceptionalism—its religiosity—explains some of the confusions of recent policy. American foreign policy has long had a strong moral component. Enemies are not merely threats to national security. They are evil. Mr Bush created an axis out of it, a phrase that made more sense to Americans than to anyone else. There is no such thing as a friend of convenience. "You are either with us or against us," said Mr Bush.

The inevitable result was confusion in dealing with countries that did not fit into either category, such as Saudi Arabia. There was confusion within the administration because, at least at the State Department, the demands of realpolitik and diplomacy conflicted with the impulses of morality. And there was an even greater degree of uncertainty in handling Israel and Palestine because, in addition to the intrinsic difficulties of that conflict, the administration was now influenced by the louder voices of those urging it to go from being an honest broker in the region to an unquestioning supporter of Israel.

Lastly, the attacks of September 11th brought to the surface a quality that has been forgotten recently about America. Unlike any other democracy, with the possible exception of Britain, America has a strong war lobby. Americans tend to believe wars settle things. They are willing to support vast military spending and to see the most fearsome weapons deployed.

AP

This is the opposite of what was universally believed. After the humiliating retreat from Somalia, and the initial refusal to put troops into the Balkans, America came to be regarded in some quarters as a paper tiger—fierce-looking but unwilling to fight. Mr bin Laden taunted Americans as cowards. In fact, as Mr Russell Mead points out, where the deepest issues of national security are involved, the American public has been willing to take, and inflict, enormous casualties. It had few qualms about bombing Japan; it sustained heavy casualties in Korea; and public opinion supported even the Vietnam war almost to the end (though elite opinion certainly did not). Now, almost 60% of Americans say their country should attack Iraq even if that means heavy casualties.

After Pearl Harbour, Admiral Yamamoto, the architect of that raid, admitted he had "awakened a sleeping giant and filled him with a terrible resolve." A year after September 11th, Mr bin Laden may have done the same. The consequence has been lethal for the Taliban and parts of al-Qaeda. It is not comfortable even for allies. But, given what America is, it was probably inevitable. And for the defeat of global

terrorism, it may also be necessary.

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Central Asia

Back into the cauldron

Sep 5th 2002
From The Economist print edition

September 11th has brought America back to a fragile region after a damaging decade of absence. Long may it stay there

AP

IN FEBRUARY 1989 the last Russian units withdrew from Afghanistan across the Friendship Bridge into Uzbekistan, then still part of the doomed Soviet Union. To America, this was a moment of triumph. For ten years, by arming and assisting the *mujahideen*, it had first contained and then reversed what many feared was a Russian drive to the Persian Gulf.

Almost immediately, though, America's interest in the region evaporated. Little American, and not much international, effort was expended on stabilising liberated Afghanistan, which immediately lapsed into civil war. Pakistan, which was once a vital ally in the battle for Afghanistan, was disregarded. Only a year later, the administration of George Bush senior declined to certify Pakistan as free of nuclear weapons, thereby freezing weapons sales to the country. Pakistan's nuclear programme had not seemed such a problem in the 1980s.

The decade of American disengagement proved devastating to Central Asia. The Afghans, exhausted by warlordism, welcomed the rule of the Taliban. In turn, the Taliban's leaders fell under the sway of Osama bin Laden and his al-Qaeda fighters. Long before the attack on the World Trade Centre, these allied groups attempted to spread *jihad* throughout the region, assisting radicals in the former Soviet Central Asian republics, in Kashmir and even in China. Pakistan suffered particularly badly. Cast adrift by the West, which now found India more attractive, it too moved ever closer to fundamentalism.

September 11th has re-established the precept that Central Asia is too important and too dangerous to be ignored. It is home to the world's most alarming Islamic sects, it is the place where the West has historically rubbed up against Russia and China, and it is both blessed with oil and cursed with (Pakistani) nuclear weapons. By bringing America back to the region in force, renewing the American alliance with Pakistan, conducting “regime change” in Afghanistan and, for the first time, securing American footholds in Uzbekistan and Kirgizstan, last September's terrorist attacks may have the eventual effect of bringing stability to a highly volatile part of the world. That will only happen, though, if America's interest in Central Asia does not dwindle again.

Cautious imperium

So far, the signs are mixed. President Bush has vowed not to abandon the people of Afghanistan, and General Tommy Franks has talked of staying there a long time. Although the defence secretary, Donald Rumsfeld, is not keen on nation-building, he recently announced that his troops were shifting from cave-clearing to more civilian duties. Last week came murmurs that the Pentagon might be prepared to see an extension of the UN's peace-keeping mission in Afghanistan beyond the capital, Kabul. But it is not a priority.

Generous amounts of money—$4.5 billion or so over the next five years—have been pledged by America and its allies. Little has yet been delivered, though the Americans have disbursed $350m and are putting pressure on others to do so. Efforts to integrate into a national professional army the dozens of private armies behind the warlords are underfunded and limited in scale. Only a few hundred men, of the 80,000 or so needed, have been trained so far. To critics like Richard Holbrooke, a former American ambassador

to the UN, it is all a world away from the huge international effort made at the end of the Yugoslav wars to stabilise Bosnia—with much success. If it is half-hearted in the exercise of its *imperium*, America may blunder into a quagmire.

Yet the critics underestimate how much has been achieved. Diplomatic deal-making by an engaged America proved crucial, time and again, to ensuring the birth and survival of at least a semi-functioning government in Afghanistan, led by a Pushtun, Hamid Karzai. This government is still far too dominated by the Tajik minority who made up most of the Northern Alliance, America's chosen allies in the war against the Taliban. But Mr Karzai is gradually appointing more non-Tajiks: and besides, the government is only provisional, until elections can be held in 2004. At that point, the Pushtuns' greater numbers will tell. The former king, furthermore, has been brought back to his capital, though not to his throne or even to a ceremonial presidency, as would have been better. The new government has at least the promise of large sums of money, and the UN, on the back of that, is piling in people and resources. Most telling of all, more than a million Afghans have returned home after a decade in squalid refugee camps.

Though the country is still far from safe, it has not yet reverted to the violent warlordism of the 1990s. That is why refugees dare to return, and why aid workers are able to work—though there are troubles in some areas, especially the north, where a few NGOs have ceased their operations. Coalition troops, ostensibly there only to hunt for Taliban and al-Qaeda, have helped to calm things. Of course, the effect would be greater if they were dispersed all around the country, rather than concentrated along the Pakistani border. America would do better, too, to stop collaborating with warlords in pursuit of the war on terror. Still, one might almost call this nation-building by the back door.

Like it or not, America has now become an activist power in Central Asia—though it ought to go much further. The fact that neither Russia nor China has raised serious objections to America's appearance suggests that they, too, see merit in having the superpower involved, though they would not care to see it stay. Even Iran—or at least the moderate half of its government—has quietly acquiesced.

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Despite the embarrassing fact that neither Mr bin Laden nor the Taliban leader, Mullah Omar, has been captured, the main purpose of the American action has been achieved: both men have been driven out of their strongholds, and, even if alive, are far less able to spread terror. This is good news not just for Afghans and Americans, but for Pakistan and the rest of Central Asia.

Our sonofabitch

But if America has, at long last, reversed its neglect of the region, it is also in danger of committing another old mistake—embracing too closely unsavoury types with a precarious grip on power. America's presence brings benefits, but it also rouses hatred, especially when Washington appears to be propping up despots. Pakistan provides the most worrying example.

Ever since the start of the American action against Afghanistan, when General Pervez Musharraf decided to allow his territory to be used to mount raids against the Taliban, the terrible fear has been that a backlash of Islamic rage would sweep the general's government away. The thought of Pakistan's nuclear weapons and its long-range missiles in the hands of extremists is chilling. Is it plausible?

Certainly, the risk exists. Many hundreds of al-Qaeda and Taliban are known to have escaped from Afghanistan into Pakistan, where they are hiding in tribal areas that are not fully under the control of the government. They have linked up with Pakistani groups active in Kashmir, and there is some evidence that they may be trying, through attacks in Kashmir, to provoke a war with India in the hope of seizing power when, as they suppose, Pakistan is defeated. In the meantime, they are driving overseas businessmen and investment out of the country with attacks on Christian churches and foreigners.

General Musharraf seems unable, or unwilling, to crush these groups. No sooner does he ban one, such as the most notorious, Jaish-e-Muhammad, than most of its people pop up again under another name. He has failed to end cross-border attacks on India—though the Indians suspect that this is less because he cannot than because he does not want to. The groups have their uses, such as bleeding India in Kashmir, as well as their dangers.

For the general, the rewards of his embrace of America have been lavish: billions of dollars in new loans, a rescheduling of IMF debt, a lifting of sanctions and much else. The former pariah now finds himself a hero in Washington. None of this, however, can protect him from his Islamic enemies. In numbers, they are few; but the risk of an assassination, or a coup led by pro-Islamic officers, remains. The general is becoming more dictatorial: the long-awaited elections due next month promise to be a farce, with opposition leaders barred and the parliament already emasculated.

Most mainstream Pakistani opinion supports the alliance with America, and the general has been foolish to fall foul of it by his anti-democratic manoeuvres. They have united everyone against him: the Islamists, moderate and radical, as well as the secular parties, especially those led by the former arch-rivals, now allies, Benazir Bhutto and Nawaz Sharif. The further General Musharraf drifts from democracy, the more untenable his position will become.

The questionable Stans

In the former Soviet Asian republics, America has had to acquire some even nastier new friends. Islam Karimov, the president of Uzbekistan, and Askar Akaev, the president of Kirgizstan, have both provided air bases. In both countries, the past year has seen a further deterioration in already grim human-rights records, despite criticisms by the State Department.

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The growing despotism of Mr Karimov and Mr Akaev is clearly bringing problems in its wake. In both countries, the economy has weakened, and support has increased not only for secular opposition groups but for more alarming religious movements such as Hizb-ut-Tahrir, which has been attacking the American presence in Kirgizstan. Uzbekistan, in particular, has jailed many thousands of moderate Islamists, an excellent way of converting their families and friends to extremism. In Kirgizstan, one leading opposition figure has been detained, another has died on hunger strike, and the government has yet to set up a fair inquiry into the killing by police of at least six unarmed demonstrators in March.

On the other hand, the American campaign in Afghanistan has badly hit the most dangerous of those religious groups, the Islamic Movement of Uzbekistan (IMU), which aims to establish an Islamic caliphate throughout the region, and used to stage raids from its secure bases in Afghanistan. The IMU's military leader, known by the *nom de guerre* of Juma Namangani, has almost certainly been killed. In the immediate future, there would appear to be no significant threat to any of the Central Asian regimes, though it is hard to see how they can be reliable allies in the longer term.

The American presence in the “Stans” is hugely beneficial to countries that are suspicious of Russia and China. That gives America bargaining power. And when all is said, Central Asia is in far better shape than it was a year ago. But Afghanistan could revert to its murderous past form at any time, Pakistan gives genuine cause for concern, and the leaders of the former Soviet republics need to be pressed towards better behaviour. If America fails to follow through on what it has begun, the consequences will be dire. If it stays engaged, and shoulders its burden, the next decade could be a lot better than the last.

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The Arab world

Revolution delayed

Sep 5th 2002
From The Economist print edition

An American strike on Iraq will not ignite the Arab street. On the contrary, it may nudge some societies towards the modern world

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IT TOOK less than a year for the felling of the twin towers to transform the political geography of Central Asia. But it was not, of course, the people or the grievances of Central Asia that lay behind the attacks on America. All the suicide attackers were Arabs. Fifteen of the 19 were Saudi Arabians, like Osama bin Laden himself. In the year ahead, the biggest consequences of the attacks on America are likely to be felt in the Arab world.

Mr bin Laden (if he is still alive) might welcome that. Possibly, he intended all along to draw America into an Islamic civil war. His aim, in the view of Michael Scott Doran, professor of near-eastern studies at Princeton University, was to provoke an international military crackdown, which he and his followers could exploit for their particular brand of revolution.

“The script”, says Mr Scott Doran, “was obvious: America, cast as the villain, was supposed to use its military might like a cartoon character trying to kill a fly with a shotgun.” Muslims everywhere would be shocked by how nonchalantly America caused their brothers in the faith to suffer and die. That would open a chasm between state and society in the Middle East. Governments allied with the West, many of them repressive and corrupt, would drown in a sea of hostile opinion.

Are events following Mr bin Laden's script? Not quite. Or, safer to say, not yet. America's war against the Taliban in Afghanistan did indeed anger many Muslims. It rocked the House of Saud. It made General Pervez Musharraf feel he had to tighten his military dictatorship in Pakistan. But no regime friendly to the West has yet been swept aside by a tide of Islamic rage. So far as any outsider can discern, none looks even near that point.

What this suggests is that if the American cartoon character packed up his shotgun and walked away now, the Arab world might well plod on in its familiar pattern, pretty much unscathed by September 11th and all that flowed from it. But George Bush's administration shows little desire to turn its back, or its cheek. It is, rather, marching towards Iraq and the sound of gunfire. The big question now is therefore whether an American-led war to remove Saddam Hussein will give Mr bin Laden the victory he was denied when the Americans removed the Taliban.

The word on the street

In truth, nobody knows. The famous “Arab street” is undoubtedly hostile to the notion of America waging war in Iraq while appearing to do so little to impose peace in Palestine. But since when has public opinion changed regimes in the Arab world? Iran had a popular revolution against the shah in 1978. But one of the most striking things about the recent history of the Arabs is the durability of the supposedly fragile monarchies and dictatorships that misgovern them.

Jordan, arguably one of Iraq's most vulnerable neighbours, is a prime example. More than half its people are Palestinians, who in the 1970s fought a civil war with the other half. The little country has seen riots and assassinations. For all that, the Hashemite family which the British installed as monarchs of the country Winston Churchill invented in the 1920s has stayed in power ever since. King Hussein lost a war,

east Jerusalem and the West Bank, to Israel in 1967, but remained on the throne. He also remained when he made an unpopular peace with the Israelis in 1994. After his death in 1999 the succession passed smoothly to his equally pro-western son, Abdullah.

Jordan is by no means exceptional. The scions of Ibn Saud have controlled the Arabian peninsula and its oil wealth for a century. And in recent decades the formerly “revolutionary” republican regimes of Egypt, Syria and Iraq itself have settled down to an outwardly stable dynastic rhythm. Hafez Assad ruled Syria for 29 years and then bequeathed absolute power, as if the country were a private possession, to his son Bashar. The assassination of Anwar Sadat by Islamic militants in 1981 did not prevent his deputy, Hosni Mubarak, from assuming the presidency of Egypt and clinging to it ever since. A junior Mubarak is now being groomed to take over. Mr Hussein himself has been Iraq's absolute ruler for almost a quarter of a century, and a favoured son, Qusay, stands ready to inherit. The popularity of these regimes may wax and wane—but, practised in repression, they have never relied on popularity in order to survive.

This is not to say that they can survive unchanged forever. Nor should they: having crushed freedoms, squeezed the breath out of opposition parties, and in most cases delivered precious little prosperity by way of compensation, it would be disappointing as well as peculiar if they did. But why expect an American war on Mr Hussein to start knocking over dominoes that managed somehow to stay upright despite Arab-Israeli wars, the Iranian revolution, the Iran-Iraq war, the Gulf war and two Palestinian *intifadas*?

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Millions of Arabs, it is true, admire the Iraqi dictator's defiance of America and Israel. That does not mean that they would respond to his downfall by marching on their own governments. Many of those who admire him from afar are at the same time shrewdly aware of how dreadful it is to be an Iraqi. This is why Mr Hussein has never attained the status of a Nasser, who until the 1967 defeat by Israel was a genuine hero to all Arabs. Nor, having for most of his career espoused the secular nationalism of Baathism, can Iraq's dictator convincingly pose, like Mr bin Laden, as a champion of the Islamic alternative. It is anyway far from obvious why the average Egyptian or Saudi would blame his own government for an American attack on Iraq. These supposedly pro-American governments have already taken evasive action by making their own opposition to such a war crystal clear.

Given all this, the prospect of Arab regimes collapsing the moment America strikes Iraq looks fairly remote. It would be even more remote if America won swiftly, without inflicting heavy casualties. Since a war in Iraq entails so many imponderables, it would be folly to be confident of such a victory. But it would also be foolish to rule the possibility out. In Afghanistan, American technology soon dismantled the enemy's will to fight. And there is plenty of evidence from the Gulf war that the will of many Iraqis to fight for Mr Hussein has limits. Most of his soldiers surrendered at the first opportunity. Many of his civilians then tried to overthrow him. Abandoned by America, at the behest of Saudi Arabia, their uprising was crushed. The subsequent repression has not diminished their loathing of the man.

That Saudi request, in 1991, for the Americans to leave Mr Hussein in power, is telling. Are Arab rulers afraid that a war will go horribly wrong—drawing in Israel, bringing pro-Saddam protesters on to their own streets, provoking a post-war civil war inside Iraq, accelerating its collapse into warring sectarian fiefs? Or are they afraid of the opposite: that the war will go horribly right?

The latter, say members of the Iraqi opposition in exile. They, of course, have an interest in saying so. All the same, the Iraqi National Congress, the umbrella group that represents most of the opposition factions, has drawn up what looks like a promising blueprint for a post-war Iraqi order. It is based on two ideas: democracy and federalism. The opposition argues that as a nation with deep national and sectarian divisions—Shias, Sunnis, Kurds—Iraq can stay whole only by loosening the grip of the centre and devolving power to autonomous provinces.

Awkward for some

This idea has special resonance with Saudi Arabia. It is, in point of fact, anathema. Like Iraq, Saudi Arabia is a complex tribal society, which has resolved its problem of diversity by imposing authoritarian control. The Saud family enforces its will from the centre, deriving legitimacy from its claim to implement *sharia* law and represent the global interests of Islam and the *ummah*, the community of believers.

Against such a background, Saudi Arabia's misgivings about an American war in Iraq are understandable.

An unhappy ending—one, that is, in which Mr Scott Doran's cartoon-character America follows the bin Laden script and nonchalantly causes Muslims to suffer and die—would strengthen the feelings of those Saudis already sympathetic to al-Qaeda. If Iraq disintegrated, the Shia population of Saudi Arabia might follow the Iraqi example and start to think about secession too. As for what the West would construe as a happy ending—the emergence of a federal democracy in Iraq—this would complicate the Saud family's efforts to maintain its totalitarianism. In its heart, the House of Saud wants nothing to change and history to stop.

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The Saudis are not alone in that. Many of the critics of an Iraqi war in the West also say that it will bring instability, implying that the stability of the Arab world is a self-evident good. The paradox is that most ordinary Arabs privately concede that the form of stability provided by the Assads, Husseins, Mubaraks and Sauds is not so good, a blend of corruption and repression that has succeeded mainly in holding the Arabs back. Might the chasm which Mr bin Laden planned to open between state and society in the Islamic world turn out to be highly desirable, if—contrary to his script—it encouraged a turning towards political modernity?

It is possible. The suicide bombers of al-Qaeda made the opposite judgment, reckoning that by drawing America into action against Muslim countries they could win recruits for an Islamic revolution. America has certainly not made itself popular in the Muslim world since September 11th, and may become less popular still in the course of a military intervention in Iraq. On the other hand, the Arab perception of America's aims could swiftly change if (as is probable) the Iraqis were then to celebrate the downfall of Mr Hussein as joyfully as Afghans celebrated the downfall of the Taliban; and if (as is possible) America followed up quickly with an intensified push towards peace in Palestine.

Many westerners would call this wishful thinking. In fact, it is less fanciful than the idea that Islamic radicalism is poised to overthrow the secular regimes of the Arab world the moment America gives Iraq a push. Violent Islamic radicalism of the al-Qaeda sort has been in decline in most parts of the Middle East for at least two decades, and no amount of anti-American feeling seems likely to switch this trend abruptly into reverse. Armed Islamic movements have been suppressed in Egypt and Algeria. With the possible example of Hizbullah in Lebanon, Arabs never imported the Islamic revolution preached from Iran, and Iran itself is now retreating from it.

“Violence”, argues Gilles Kepel, a professor at the Institute for Political Studies in Paris, “has proven to be a death trap for Islamists as a whole, precluding any capacity to hold and mobilise the range of constituencies they need to seize political power.” Arabs are no fools. The violence and audacity of September 11th may have captured the imagination of many of them. Far fewer believe that waging war on America and turning their back on modernity is a cure for their desperate problems at home.

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Arab-Americans

A year of living nervously

Sep 5th 2002 | DEARBORN AND LIVONIA, MICHIGAN
From The Economist print edition

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Arab-Americans are more worried than ever about George Bush, and increasingly puzzled about what being an "Arab-American" means

AT THE end of last month, around 50 Arab-American leaders gathered in Dearborn, Michigan, to meet Jennifer Granholm, the Democratic candidate for governor. The meeting was meant to be a show of strength: there was plenty of talk about Arab-Americans being a crucial swing-group in the state. But this confidence was belied both by events (the previous day, a grand jury had indicted four alleged supporters of al-Qaeda in Detroit) and by the complaints about increased scrutiny from the government. One businessman referred to George Bush's attorney-general as "Ayatollah Ashcroft".

With emotions ranging from anguish to fear, anger and ethnic pride, Arab-Americans are still reeling from last year's terrorist attacks. This tumult has been complicated by an identity crisis. To the extent that they have ever thought of themselves as "Arab-Americans", most see themselves as middle-class Christians (most Muslims in America are black or Asian). But immigration is making the group poorer and more Muslim—thus bringing them a little closer to the stereotypes that many of them dislike.

Has there really been a backlash against Arab-Americans? In the days after September 11th, there were racial attacks, but these became less common once George Bush denounced them. In May, the Justice Department said it had investigated 350 hate crimes since September 11th. By most measures, Arab-Americans and Muslims are safer from racial attacks in America than they are in Europe.

Harassment by the government is a different matter. Arab-Americans think that John Ashcroft's Patriot Act, passed last October with overwhelming support from Congress, was aimed at them. So far, virtually all the people in America who have been investigated and detained under the act seem to have been Muslims.

Many think the idea that Mr Bush has "turned against" Arab-Americans is also born out by his foreign policy. They bitterly resent his "one-sided" support for Ariel Sharon's incursions into Palestinian territory. They are also unsympathetic to the idea of invading Iraq, not least because they fear that any setback for America could result in attacks on their own communities. "If the United States invades Iraq, I wouldn't want to be living in Dearborn," says Terry Ahwal, a leading Palestinian Christian in the Detroit area.

Last October, a survey for the Arab-American Institute (AAI) found that 90% of Arab-Americans were reassured by the president's comments and actions. By May this year, that figure had fallen to 54%. The

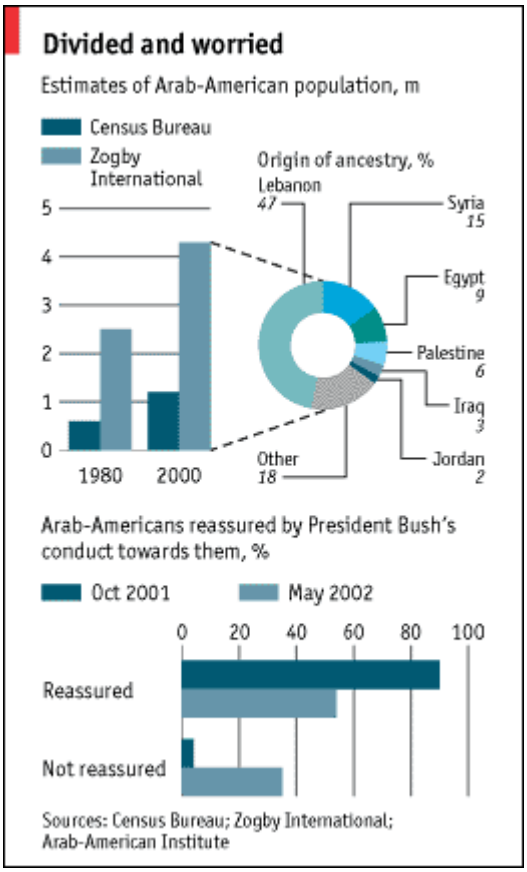
proportion who reported experiencing discrimination in the past because of their backgrounds remained unchanged at one-third. “I haven't seen anything more arrogant than Bush and his clan,” says Osama Siblani, publisher of the *Arab-American News* and a former Bush supporter. “I haven't seen anything less compassionate.”

Part of this may be political posturing: for instance, the Democrats are arguably more pro-Israel than the president. But the overall picture of a group that feels under pressure is clear. Ibrahim Kira, a psychologist who treats immigrants at the Arab Community Centre for Economic and Social Services (ACCESS) in Dearborn, points to many cases of severe regression among his patients, after the “double trauma” of September 11th and then the backlash.

A recurring theme among Arab-Americans is what Ms Ahwal calls an “eerie feeling” of being under scrutiny—from police officers, co-workers and neighbours. “If I went to New York and took a picture of the Statue of Liberty, would my neighbour misconstrue that?” asks Ms Ahwal. In Dearborn, Abdallah Boumediene, who works with Iraqi refugees at ACCESS, points out that many of them fled to America to escape persecution. “Now they're finding some of the same things here. Most of their anxiety relates to security matters. They just don't know how to deal with it.”

This scrutiny is all the less welcome because many think that they are being pigeonholed as members of a group that they had not identified with. The census lists 1.3m Arab-Americans in 2000 (roughly double the figure for 1980). John Zogby, whose firm conducted the AAI poll, says the true number is more than three times higher (see chart). He reaches this figure by including more new immigrants, and also by adding in more assimilated descendants of immigrants from as far back as the 1890s.

But has a Christian whose grandfather came from Lebanon really got that much in common with a Yemeni Muslim fleeing persecution? Before September 11th, people like Mr Zogby (whose brother James is president of the AAI) were pushing to create an Arab-American lobby. The hope was that by showing their numbers in states like Michigan, California and New York, Arab-Americans could get more influence over everything from foreign policy to their generally negative depiction in Hollywood films. Now, suddenly, Arab-Americans find themselves being bundled together, but for the wrong reasons.



Meanwhile, the group is definitely changing—as the western Detroit suburbs of Livonia and Dearborn show. Livonia is a decidedly middle-class place. The new dome of St Mary's Antiochian Orthodox Church soars over well-tended, ranch-style homes. The large and prosperous Arab-Christian parish, founded three decades ago by Father George Shalhoub, has members of Syrian, Lebanese, Palestinian, Jordanian and Iraqi descent. Almost all of them were born in America, and many are successful professional types. Mr Bush's energy secretary, Spencer Abraham, is an occasional worshipper.

Livonia and suburbs like it may still be the norm: about 70% of Arab-Americans are Christian. But immigration is changing that. In Dearborn, only a 15-minute drive from Livonia, there are plenty of “boaters” (as local Arab teens call recent immigrants). These are largely Muslims from Lebanon, Iraq and Yemen. Women wear headscarves in the halal meat markets, kebab shops, and Arabic bookstores along Warren Avenue.

The town is home to eight mosques, with another huge one under construction. There are also several Islamic schools, which stick to the Michigan state curriculum but also offer daily Muslim prayer and Arabic-language training. In 1970, only 15% of immigrants from the Middle East were Muslim; in 2000, the figure was 73%, according to a recent study by the Washington-based Centre for Immigration Studies.

Many of the new arrivals are in bad shape. A local paediatrician points to cerebral palsy and developmental delays in the children of Iraqi refugees who were exposed to toxins when Saddam Hussein set oilfields ablaze in their country.

So there are differences, but there are also similarities—not just with Livonia but with all America's other immigrants. The Muslims in Dearborn are no less industrious than the Christians in Livonia: property prices have risen steadily over the past decade as the new immigrants have built up businesses. Zahid Bukhari, a political scientist at Georgetown University, is optimistic, arguing that Muslims are merely following other groups, such as Catholics, Jews, Japanese and even women, in being targeted. As a result, he says, “we are more determined to work in American civic life, to become more open.”

For many Arab-Americans, this remains scant consolation. A group that imagined that it was growing out of a stereotype is now frightened and frustrated. In Livonia, Father George wrings his hands over his people's fate. “Someday, when I see God, I'm going to ask him why we need to be cursed this way,” he says. “I hope he'll have an answer for me.”

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The Iraq debate

Fogh of war

Sep 5th 2002 | WASHINGTON, DC
From The Economist print edition

President Bush says debate on Iraq can finally begin

Get article background

FOR months, George Bush refused to join the “frenzy” about Iraq until he had decided what to do. Fair enough: until then, as he said, there is not much to debate. The trouble has been that everyone else has been leaping into the fray, with foreign leaders and a few Americans lining up to criticise military action.

This week, goaded by thus losing control of the debate, the president finally joined it. He promised leaders of Congress that he would ask for congressional approval, presumably for the use of force (the vote will probably come before election day on November 5th). He said he would consult the four other permanent members of the UN Security Council (inviting Britain's Tony Blair to Camp David this weekend). And he promised to lay out in more detail his case for wanting to remove Saddam Hussein in a speech to the UN's General Assembly on September 12th.

Despite his keenness to remove Mr Hussein, the president does not seem to have chosen the means. That decision, he again insisted, had not yet been made. Rather, as Mr Bush told congressional leaders, “Today, the process starts.” His comments bring forward the debate—and possibly the war.

They do so in a context somewhat more favourable to military intervention than seemed likely even a few weeks ago. Then, the administration was divided, even incoherent. In America, the commentary was led by sceptics. European and Arab critics were convinced the administration was preparing for unilateral war.

Nothing is quite so clear-cut now. It is true that divisions remain in the administration. The secretary of state has said the return of UN weapons inspectors is an essential first step towards ridding Iraq of weapons of mass destruction. Meanwhile, the vice-president has insisted the inspectors would merely provide “false comfort”. But both could (just) be right. The inspectors may well be, as Dick Cheney said, pointless. But, because American allies might sign on to an attack only if they had been tried first, they might also be, as Colin Powell said, essential.

Next, the administration is still winning the battle at home. Most Americans say they support attacking Iraq anyway. Democratic congressional leaders left their meeting with Mr Bush sounding as if they might well back an authorisation of the use of force. It may be that the White House is offering Congress a deal: we will seek your approval and offer detailed explanations in exchange for a resolution that does not tie our hands.

Lastly, there may be some hope that America and its allies are not as divided as they sometimes seem. By saying he would consult the permanent Security-Council members, Mr Bush suggested he was still seeking an international coalition against Mr Hussein. And European foreign ministers are at least not rejecting that possibility. Last weekend, they met in Elsinore, Hamlet's castle. Instead of princely indecision (“Thus conscience doth make cowards of us all.../And enterprises of great pith and moment,/ With this regard their currents turn awry,/ And lose the name of action”), the Europeans agreed that the UN should give Iraq an ultimatum: let the inspectors back in, or else.

Anders Fogh Rasmussen, Denmark's prime minister, refused to say what the EU would do if Mr Hussein refuses. But it does seem as if Euro-opposition, at least at the government level, may be moderating a little. For a man who has yet to make his case with any conviction or force, Mr Bush is not in a bad position.

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An unusually busy session for Congress

Lor', love a (lame) duck

Sep 5th 2002 | WASHINGTON, DC
From The Economist print edition

So many bills, so little time

CONGRESS gathers in New York this week to commemorate the anniversary of September 11th. It will be only the second time it has met outside Washington, DC, since its first session in the Capitol in 1800. Behind the commemorations, it also has a huge amount of work to do. No one expects it will get much done.

First on the list is trying to create the behemoth **Department of Homeland Security**. Next comes a measure to make it easier for people with 401(K) **pension plans** to sell holdings of their employer's shares. The House passed a version of this bill and, in the wake of the Enron affair, pensions reform is likely to sail through.

That cannot be said for five other bills, though all have passed both House and Senate. The chambers must now reconcile their differing versions before sending agreed bills to the president. They have managed to do this for a long-awaited reform of **bankruptcy law**, but the deal is being held up by foes of abortion: they object to a provision that would prevent abortion protesters who damage property from filing for bankruptcy in order to avoid paying fines.

The two chambers have started to reconcile different versions of the president's proposed **energy policy**. Agreement on this is also possible, but the White House will probably have to abandon plans to allow drilling in Alaska's protected Arctic National Wildlife Refuge. A "**patients' bill of rights**" (allowing suits against health-maintenance providers) looks unlikely to get through. A bill to make the federal government the **insurer of last resort for terrorist acts** stands a chance. The only bill in conference that looks almost certain to pass is a measure to help states update clapped-out **voting equipment**.

Two much bigger measures, the overhaul of **welfare reform** and a proposal to expand Medicare to provide **prescription drugs** for old people (both passed by the House but not the Senate), seem likely to get lost in the rush of other business. For example: **Iraq** (the president has said he will ask Congress to approve the use of force); possible new **tax cuts** (which White House officials are talking about); and, last but not least, Congress's main job, the **budget**.

Partly because of disputes over the ballooning deficit, the House of Representatives has passed only five of the 13 spending bills which make up the annual budget. The Senate has passed just three. The budget is often late, but Congress has not been this late for ten years. In 1995, the inability of Bill Clinton and Congress to agree on a budget meant the government had to be shut down. No one expects that again. But many expect something almost as distasteful: a "lame-duck session", a meeting of the old Congress after the new one has been elected.

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Homeland security (1)

A hole in the middle

Sep 5th 2002 | WASHINGTON, DC
From The Economist print edition

How much safer is America now?

GEORGE BUSH and the Democrats in Congress rejoined their battle this week over the mooted new Department of Homeland Security. The president wants the power to hire, fire and allocate workers in the name of flexibility. Democrats, who tend to be somewhat closer to the unions, accuse the Republicans of trampling on civil rights. They also want Congress to control the department's budget; Mr Bush wants to keep 5% under the discretion of the administration.

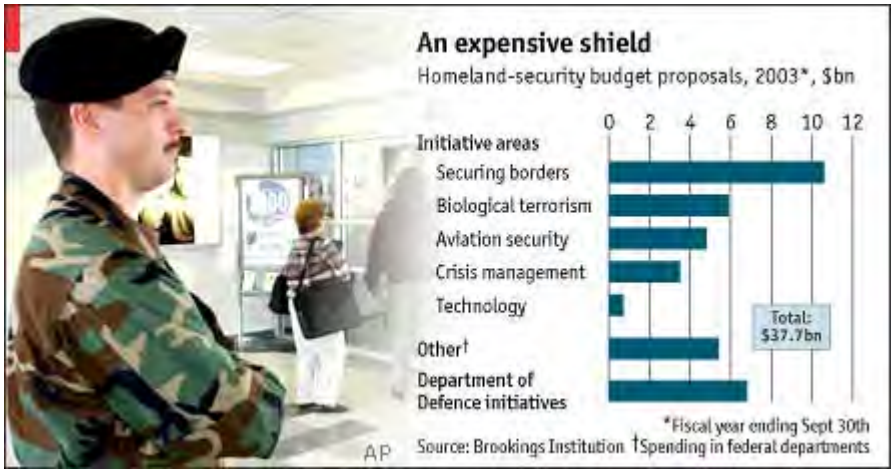
Which is all very well. But it seems to have remarkably little to do with making America safer. One year after America realised how vulnerable it was, it still does not have a department devoted to that project. What has been achieved?

The answer is a lot on the top and the bottom, and not so much in-between. On the international stage, America has improved safety dramatically by disrupting terrorist networks abroad. At the grass-roots level, a sudden awareness of risk has resulted in countless local safety reforms. But for everything in the middle—protecting hazardous waste, tracking foreigners, monitoring cargo ships and so on—improvements have so far been marginal.

That is less disastrous than it sounds: things like rebuilding disease-management systems require time. Moreover, the work abroad has helped. The terrorists arrested in places like France, Singapore and Morocco; the destruction of training camps; the fact that al-Qaeda's leaders are on the run: all these things have allowed for some breathing room to plan for better domestic safety.

The most dramatic area of improvement involves airlines and their passengers. The best reforms appear to have been the simplest ones, such as searching passengers more often and more thoroughly. Individuals paying more attention have also made a difference. The shoe-bomber, Richard Reid, was apprehended by flight attendants and passengers, not one of the new air-marshal police officers.

America's airline industry has now embraced security in a somewhat manic fashion. The airlines already have to lock cock-pit doors; soon they will install grenade-proof barriers that cost up to $50,000 each. The federal government has offered to pay for 7,000 machines to scan baggage for explosives, three times as many as there currently are in the whole world. Altogether, the White House reckons that it will spend $4.8 billion next year securing the skies (see chart). The deadline for these improvements may have to be extended for a year.



Many small neighbourhoods, cities and even states like Alaska (see article) have reacted a little like the airlines. John Thomasian of the National Governors Association argues that one of the main ways in which America's security has been enhanced is by putting many more guards at water reservoirs, power plants, bridges, tunnels and various pipelines. The National Guard has been particularly useful for this.

However, once homeland security starts involving co-operation between states or private groups, things get more patchy. Countless fairly simple reforms have been stalled.

Chemical factories, for instance, remain big targets: blowing one up could kill 10,000 people. Yet the task of protecting these unlit bombs has been left to the chemical industry itself, which, critics say, has done next to nothing. Peter Orszag of the Brookings Institution blames the president's reluctance to push the industry on Mr Bush's (sporadic) dislike of intervening in the private sector .

America's policy towards immigrant visas also needs clarification. Close to $400m has been earmarked for a much-needed entry-exit visa tracking system; but a system to track students, which has been around for years, has been held up by political protests. Harsher controls may make for poor human-rights policy and even poor economic policy; but they are the best form of homeland security.

Planning for bioterrorism illustrates another problem: misallocation of resources. Plenty of money has been thrown at this: for instance, $2.4 billion in federal grants will be doled out for laboratories and research on sophisticated surveillance systems next year. But only $1.6 billion will go to what experts think may be the key to saving lives—upgrading public-health systems and regional hospitals, which are still in disarray. Similarly, America is spending $650m building up a smallpox-vaccine stockpile. But many doctors may not be able to identify a smallpox victim, much less an Ebola-virus or plague victim. More training is desperately needed.

The cost of delay

In theory, the new homeland-security department will bring some order to all this. It marks the biggest government reorganisation since 1948: it will bring together some 170,000 workers from 22 government agencies. But the potential benefits of a one-stop shop for security already have to be weighed against the cost of reforms stalled during the construction.

The arrival of the new department has been an excuse for prevarication. Attempts to force some of the agencies to share information have been delayed until the workers find out whom they have to communicate with in the new structure. The Immigration and Naturalisation Service is waiting to see whether its service jobs (like visas) and security bits (like the Border Patrol) will be separated. The tiny amount of money being spent on technology reflects the fact that nobody is sure what sort of computers the new behemoth will need.

Bashing bureaucrats' heads together is the whole point of the new entity. Yet until it comes into being, the new department may be inadvertently making the homeland less secure.

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Homeland security (2)

The chilling fields

Sep 5th 2002 | JUNEAU
From The Economist print edition

The view from the north-west frontier, along half of America's coastline

ALASKA a terrorist target? Most of the time, non-Alaskans tend to forget that the state exists. But in the frozen wastes of the far north-west, too, security has been ramped up. In all, some $53m, almost all of it federal money, has been spent improving Alaska's defences. The state boasts its own Department of Homeland Security, albeit one with only three staff. None of this, alas, means it is secure.

Alaska's most important, and most vulnerable, resource is oil. The state supplies around 17% of America's domestically-produced oil, almost all of it channelled from fields in the north to the southern port of Valdez via the 800-mile Trans-Alaska Pipeline. Locals often take out their bad moods on the pipeline. Last October, a drunk closed it down for two days by shooting a hole in it, just one of more than 50 shooting attacks the pipeline has suffered in its 25-year history. A concerted assault by terrorists, especially one mounted in the depths of winter or at difficult-to-fix spots such as river-crossings, could seriously disrupt the country's oil supply.

Since September 11th, according to Major-General Phillip Oates of Alaska's Department for Military and Veterans Affairs, surveillance along the pipeline has increased, though he will not say by how much. The state has also stockpiled extra equipment for making quick repairs. But Amory Lovins, an energy-security expert at the Rocky Mountain Institute in Colorado, says the pipeline is “indefensible” in its remoter parts. Worse, a serious winter attack could shut down the pipeline until the next summer at least, since the chilled oil would become gooey and hard to pump after a week of stagnation.

At Alaska's other sensitive spots—such as Fort Greely, about 100 miles from Fairbanks, where construction of a missile-defence interceptor is presently under way—security has also been tightened. But the toughest job may be guarding the coasts. Alaska has around half of America's coastline (yes, really), not to mention some of its most treacherous waters. Almost all goods arrive by ship. But the Coast Guard in Alaska is working on a shoestring, with just 2,000 people, including office staff. That represents a mere 4% of the agency's national manpower.

Over the past 12 months the agency has taken on all manner of new duties: instituting special homeland-security patrols; closing off part of the port of Valdez, the pipeline terminus; even reviving old radio networks to back up its Global Positioning System. Coast Guard crews must also keep a close watch on the

cruise ships that meander up Alaska's coasts during the summer. All of this comes on top of ordinary peacetime duties, such as rescuing distressed boats, intercepting drug-smugglers and chasing off Russian fishermen who are forever trying to sneak across the maritime border to poach American fish.

Rear-Admiral James Underwood, the Juneau-based head of Alaska's Coast Guard, admits the agency is under strain, especially since it was able to muster few additional resources after September 11th: just 40 reservists, plus $500,000 for extra equipment. Mr Underwood says that assimilating the national Coast Guard into the Department of Homeland Security (it is now part of the Department of Transportation) should improve its intelligence-gathering capabilities. But it is hard to imagine that a place as large as Alaska could ever be made completely safe.

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Mid-term elections

Connecticut's idea of all-out war

Sep 5th 2002 | NEW BRITAIN AND WATERBURY
From The Economist print edition

What happens if two politicians agree on just about everything?

TO DAY-TRIPPERS from Manhattan, Connecticut is a Waspish land of well-guarded beaches, manicured lawns and soccer moms in luxury SUVs. Away from the “gold coast” of southern Fairfield County, however, these wealthy suburbs rub shoulders with decaying mill towns, farmland and rotting cities. With this spread of constituents in a small state, all but the most local of Connecticut's politicians understandably tread a careful middle line on most issues.

There are few better proponents of the art of moderate bipartisanship than Jim Maloney, a burly, personable, three-term Democratic congressman, and Nancy Johnson, a popular ten-term Republican. Awkwardly, thanks to redistricting, only one of them can now represent the state's congressional Fifth District. Both candidates have raised millions of dollars in campaign funds, and party leaders expect a good, dirty fight for one of the few really competitive House seats. The difficulty is finding something to fight about.

Mr Maloney, a bit more of a bruiser than the ladylike Ms Johnson, got off to the most promising start, with the discovery of Stanley Works, a local tool manufacturer whose shareholders had voted to reincorporate in Bermuda. The company had already shifted factory jobs overseas, depriving hardworking families of livelihoods in a suitably Enronesque manner.

Reincorporation, thundered Mr Maloney in July, was “unpatriotic and immoral in a time of war”. He trumpeted a “Neal-Maloney bill”, which would remove the tax incentive to incorporate offshore. And he pointed out that Ms Johnson, who lives in Stanley Works' home town, New Britain, had herself taken $2,000 in contributions from one of the company's managers.

Briefly wrongfooted, Ms Johnson was, however, quick to deflect the idea that she was another Enronesque Republican. Far from hobnobbing with the corporate elite, her main connection to the company was her father-in-law, who worked there as a foreman. As for the Neal-Maloney bill, her staff claim that it should more accurately be called the “Neal-Maloney-Johnson bill”, given her work drafting it. Meanwhile, Stanley Works has announced it is reconsidering its decision. So much for that yawning political chasm.

Mr Maloney started a new campaign at the end of last month in the car park of an abandoned Chinese restaurant in Waterbury, a struggling blue-collar city. “Oppose privatising Social Security”, warned a freshly-erected billboard, carefully positioned to send a frisson of terror down the spines of passing elderly motorists. “There could not be a clearer, or more important difference between the two candidates,” ventured Dick Gephardt, the House Democratic leader.

This was disingenuous, to say the least. As Mr Maloney went on to explain, what he actually opposes is a Republican suggestion that a small proportion of workers' Social Security contributions be invested in the risky stockmarket, where pay-outs cannot be guaranteed. He actually supported an earlier, less modest, “privatisation” proposal put forward by Bill Clinton. What is more, say Ms Johnson's people, she would only support investing Social-Security funds in the stockmarket if payouts remained guaranteed, which is basically Mr Maloney's position.

And so it continues. Mr Maloney is in favour of abortion rights, but so is Ms Johnson. In the end, the election is likely to get decided the way elections usually are in Connecticut: on the candidates' personal ties and their record in sorting out local things like parks and hospitals. Ms Johnson's longer service may give her the edge. Whoever loses will be missed in Washington, but not for their radicalism.

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A new cathedral in Los Angeles

Not built by saints

Sep 5th 2002 | LOS ANGELES
From The Economist print edition

A fresh start for Roman Catholics, but recent wounds still fester

Get article background

Reuters

Lights, camera, communion

SUCCUMBING just a little to the sin of pride, the builders of the new Cathedral of Our Lady of the Angels in Los Angeles like to point out that, at 333 feet, it is 12 inches longer than St Patrick's in New York. LA is the biggest Roman Catholic archdiocese in America, with close to 5m members, 3m of them Spanish-speakers. The city's modernist cathedral, built in concrete with windows made of glowing slivers of alabaster, seems to stake a claim to leadership in a church that has been run for 150 years by Irish priests on the east coast.

The building, designed by Jose Moneo, a Spanish architect, was consecrated on September 2nd by Cardinal Roger Mahony, the archbishop of Los Angeles. The cathedral is part of a growing collection of grand civic buildings downtown, among them the Walt Disney concert hall—a characteristic flourish of gleaming stainless steel by Frank Gehry, a local architect—and the Dorothy Chandler pavilion, a former home of the Oscars. An “interfaith” service on September 4th expressed the city's hope that, suitably cushioned against earthquakes on its bed of shock-absorbers, it will serve as a spiritual rock for all citizens, non-Catholics included, to cling to. Some 6,200 people attended the two masses celebrated on September 3rd, the first day of regular services.

The Los Angeles Catholic Workers, a lay movement that organises soup kitchens in some of the grimmer streets nearby, gripes that the $189.5m it cost could have been spent on feeding the hungry. The founder would not have approved, they grumble. Supporters point out that the old cathedral was damaged in the 1994 earthquake, and that the money was raised specifically for the cathedral. But that only leads on to another bone of contention—the (wholly traditional) plan to give space in the expansive mausoleum beneath the nave to particularly generous donors.

Over all this, inevitably, hangs the cloud of paedophilia. Cardinal Mahony has generally been praised for taking a tougher line on errant priests than his east-coast peers. But an LA paper, the *New Times*, has still managed to identify several priests, accused of sexually molesting children in their charge, whom it claims the cardinal helped to protect from exposure. Earlier this summer, the cardinal apologised to his flock, in a letter read in every Catholic church in the archdiocese, for making poor decisions. This, more than any new cathedral, is the sort of thing that is needed to make Catholics feel good about their church.

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Lexington

A stubborn, patient man

Sep 5th 2002
From The Economist print edition

The next few months will be crucial in defining the Bush presidency

GEORGE BUSH was not elected to face great challenges or bear great burdens. His appeal lay in his very lightness. He wanted to shrink the size of government, reduce the weight of taxes and disentangle America from unnecessary foreign involvement. People who wanted a busy government could vote for Al Gore. People who dreamed of national greatness and rolling back terrorist states could vote for John McCain. Mr Bush sold himself as a laid-back president for a laid-back nation.

How has this lightweight coped with one of the heaviest challenges a president has ever faced? Even Mr Bush's supporters concede that he got off to a lousy start. On September 11th, people looked to Rudolph Giuliani, or even to news anchors, for reassurance while their president zigzagged across the great blue yonder. But Mr Bush smartened up fast. In the disorientating days after the attacks, he succeeded in connecting with ordinary Americans—in feeling their grief without being mawkish and in expressing America's powerful sense of patriotism. He also made a notable effort to reach out to Arab-Americans, condemning racial stigmatisation, visiting mosques and inviting leading Muslims to the White House.

Abroad, the lampooned Texan cowboy, far from striking out blindly in a fit of rage and revenge, was methodical and patient, giving the Taliban every chance to surrender Osama bin Laden before launching military action and constructing an admirably broad coalition to do it. He also understood that the war on terrorism needed to be waged on many fronts at once, through espionage and diplomacy as much as warfare.

Part of Mr Bush's appeal in those first few months lay in the way he visibly grew in his job, finding a sense of purpose that had previously eluded him. One reason why this struck such a chord is that so many other Americans found themselves growing with him. Having voted for him because they took the same fundamentally lazy view of the presidency as he did, they shared his experience in the aftermath of September 11th too—first disorientation and then a realisation that they lived in a more serious world than they had ever imagined.

Most Americans would probably agree that Mr Bush put in a pretty impressive performance in the months after September 11th. The doubts come about his performance since the state-of-the-union address in January, in which he not only extended the war to bring in the “axis of evil” but also repledged his faith in a domestic platform of lower taxes and less government.

That domestic platform looks increasingly wobbly, not least because it has ignored the ramifications of September 11th. Mr Bush has left his policy of cutting taxes untouched despite the extra costs of the war on terrorism. His visceral suspicion of government significantly weakened the attempt to improve security at home. The administration wasted months fighting the creation of a Department of Homeland Security, only to give in to the inevitable at the eleventh hour. The suspicion remains that Mr Bush simply lacks the patience and energy necessary for the dull work of rearranging Washington's bureaucratic architecture. This is one area where a President Gore would have been far more successful than President Bush.

What about foreign policy? Here Mr Bush has certainly rethought his campaign strategy. Rather than withdrawing from the rest of the world, America is now as firmly involved with it as it has ever been. The

president who preached a modest foreign policy is now the architect of a Bush doctrine that promises American activism for decades to come. Indeed, the questions all come from people who think that Mr Bush is biting off more than he can chew: that he is wrong to link the war on terrorism to the problem of rogue states; that he is allowing the question of Iraq to distract him from the more pressing issue of al-Qaeda; that he has backed Israel too unconditionally; that he is squandering international support and weakening an international coalition because of neoconservative blood lust.

Don't be deceived by the brush-clearing

The charge is accompanied by renewed doubts about Mr Bush's focus. In recent months Mr Bush has often reverted to his pre-September 11th persona: rather too listless and disengaged for comfort. He seems to have taken a back seat while rival factions in the White House slug it out, via speeches, articles and leaks, over how quickly America should act to eliminate Saddam Hussein. During Mr Bush's long holiday at his ranch in Texas last month, his administration seemed less like a modern government than a medieval court in which rival groups of courtiers were vying for the attention of a pleasure-loving prince (albeit one whose idea of pleasure is the decidedly unaristocratic pastime of brush-clearing).

The next few months will be as much of a test for Mr Bush as the first few months after September 11th. Has the president really been transformed by the attacks on the World Trade Centre and the Pentagon? Or is he returning to his idle old ways?

Given the relative paucity of information or action coming from the administration, nobody can answer this question definitely. But in one respect, at least, it would be foolish to underestimate Mr Bush: his will. The president may be a lazy man; but ever since winning the governorship of Texas he has built his political career on promising a few popular things, and then making sure that he does them (his big tax cut, for better or worse, illustrated this obstinacy). Now, with most Americans' blessing, he has said that he wants to remove Mr Hussein. Whether Mr Bush is going about it the right way is something his allies may query. But the fact that he is thinking about sending troops to Iraq over the objections of most of the world (and several distinguished members of his own party) suggests that September 11th has hardened a certain natural stubbornness in the president—and, perhaps, in his country.

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Argentina's collapse

Carving up the scraps of power

Sep 5th 2002 | BUENOS AIRES
From The Economist print edition

President Eduardo Duhalde's authority to cut a deal with the IMF is seeping away, challenged by Congress and courts

Get article background

FOR months, Eduardo Duhalde, Argentina's president, and his finance officials promised that an IMF deal was imminent. Recently, it seemed that this might even be true. But it has become clear that for every obstacle the government painstakingly surmounts, Argentina's Congress and its courts are capable of erecting another one. With a presidential election not due until March, and with no convincing candidates emerging, the prospect of Argentina recovering from its shocking economic collapse seems to recede like a mirage on an endless Pampas road.

The government is still going through the motions of trying to reach an agreement with the IMF which would at least roll over Argentina's obligations to the Fund itself. This week yet another IMF mission was in Buenos Aires. Roberto Lavagna, the economy minister, earlier made great play of writing his own draft letter of intent (though such documents are normally quietly negotiated). But the IMF dashed his hopes. “In the monetary area and the banking area and some aspects of the legal side, clearly there are issues remaining,” the Fund's spokesman, Thomas Dawson, said last week. He added that the two sides were not “talking about any kind of final timetable” for a deal.

The government thinks this unfair. The economy seems to have stopped shrinking at last. Since June, the peso has hovered close to 3.60 to the dollar. Although that is a devaluation of 72% since January, inflation remains restrained. The central bank's reserves have risen a little. So have tax revenues. The central government had a budget surplus of 200m pesos in July, though that would disappear if Argentina resumed debt payments. Moreover, with financial turbulence spreading to Uruguay and Brazil (both of which promptly received IMF bail-outs), the case for helping Argentina seemed to be stronger.

But the government has yet to show that it has a coherent economic programme. In particular, it has not decided what to do about bank deposits frozen by a previous government last December. Congress, having blocked a plan to turn these into bonds, has turned its attention to bank bashing. The average Argentine still blames the banks for the confiscation of savings (though this was decreed by the government) and much else besides. The banks, in turn, having written off huge losses, want reassurance that Argentines still want a banking system.

Though the economy seems to have stopped shrinking at last, the government has yet to show

that it has a coherent economic programme

Congress recently extended for three months a ban on mortgage foreclosures and the seizing of debtors' cars. The Senate unanimously approved a bill reinstating a 2% tax on interest and commissions for a bankrupt trade-union health scheme. (At least one banker is reported to have been told that this measure could be scrapped—for a fee). Another measure would make foreign banks' head offices liable for new deposits in their Argentine branches. Until such measures are withdrawn, the banks want any deal with the IMF halted. But they have agreed with the government to delay indexing most loans to inflation.

Then there are the courts. On taking office in January, Mr Duhalde misguidedly set in motion the impeachment of the Supreme Court. But having failed to raise the necessary two-thirds majority in Congress, he is now desperately lobbying to halt this because the court is bloody-mindedly ruling government measures unconstitutional. Last month, it struck down a 13% cut in government salaries and pensions made last year. That creates a large fiscal hole. The court may also reverse a government decree which converted dollar deposits into pesos. That would mark the end of the banking system, whose dollar-denominated assets were turned into (devalued) pesos at par.

The creeping paralysis of government has led to calls for the presidential election to be brought forward. But the candidacy of the ruling Peronist party is being squabbled over by half a dozen contenders. None are impressive. Leading the polls, but with less than 20%, is Adolfo Rodriguez Saa, who as interim president in December declared the debt default, and was previously the satrap of the western province of San Luis for 18 years.

Argentines are clamouring for new leaders. But none has yet appeared. Increasingly, authority is slipping back to the provinces, where it belonged for the first chaotic half-century of the country's independent life. The danger Argentina faces is one of stasis, in which the election fails to produce a government capable of imposing its will, or of starting to rebuild the country's discredited institutions. No wonder that the IMF is now demanding “political consensus” for any deal.

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Uruguay's economy

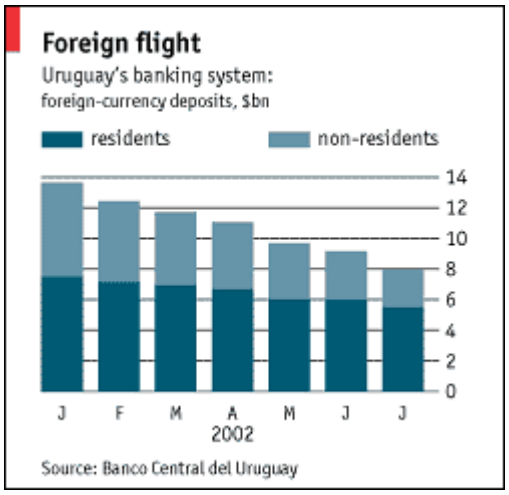
Panic over, depression not

Sep 5th 2002 | MONTEVIDEO
From The Economist print edition

A long struggle with recession, inflation and debt lies ahead

URUGUAY'S customary tranquillity has started to return since the IMF and other international bodies came to this small South American country's rescue last month with a $3.8 billion bundle of loans. A stampede to pull deposits out of the banks, which forced the government to declare a four-day bank holiday in early August, has stopped. There has been no repeat of the looting seen at the same time in Montevideo, the capital. A big protest march organised by the trade unions last week passed off without violence.

But while the immediate panic has died down, Uruguay now faces a long, hard battle against economic depression and crippling public debt. The government predicts that the economy will shrink by 11% this year and a further 4.5% in 2003—which will be the country's fifth successive year of recession. Inflation is expected to be 40% this year and 50% next. Unemployment has climbed to 16.7%.



Even so, the IMF money has injected a veneer of confidence. Uruguay's bonds have recouped some of their steep losses. While Argentines, whose savings back home are still blocked, continue to withdraw cash from their Uruguayan accounts, local customers have been putting money back in. Many savers in four troubled private banks temporarily shut by the government have accepted a plan under which 30% of their deposits would be swapped for bonds. But it is proving hard to persuade shareholders, or new investors, to stump up enough extra capital to allow these banks to re-open. So far, only the Moonies, a religious sect which owns a stake in one of these banks, Banco de Credito, have offered fresh money.

Almost all of Uruguay's public debt of $10 billion is in dollars. Since the peso has devalued by 50% this year, and remains weak, the debt burden has soared, to almost 100% of GDP. That is forcing the government to seek drastic spending cuts, and some tax rises, to avoid a debt default. This week, Montevideo's main public hospital cancelled all non-urgent operations for the rest of the year. Three of Uruguay's foreign embassies are to close. Payments to government suppliers have been halted, to ensure that at least salaries and pensions will be honoured. Even congressmen have been told they will have to supply their own coffee and toilet paper.

This austerity will test Uruguay's political consensus. President Jorge Batlle has a majority in Congress, so he should gain approval for next year's tough budget. But in the streets, says Adolfo Garce, a political scientist at the University of the Republic in Montevideo, several groups, such as truckers and civil servants, are planning protests to press for handouts to compensate for rising prices. The left-wing opposition, the Broad Front, already looking ahead to a presidential election due in 2004, reckons (wrongly, thinks Mr Garce) that its best tactic is to radicalise. Its leaders recently decided to put themselves at the head of any future protest marches, and issued a list of spending demands.

Faced with such pressures, Mr Batlle's “solution” will be to print money, says Ernesto Talvi, an economist at Ceres, a think-tank. The resulting inflation will bump up tax revenues, while reducing the value of spending, thus leaving enough money to service the debt. But this is risky: inflation will weaken the peso, thereby increasing the debt. And Uruguayans, especially the poorest ones, will suffer a further fall in living standards.

Whether Mr Batlle can avoid a default depends in part on how much social unrest he faces. Some analysts, including Senator Danilo Astori, the Broad Front's most moderate congressman, fear that the opposition's radicals will whip up enough protests and strikes to force Mr Batlle to abandon austerity, in the hope that this would increase the opposition's election chances. However, voters might punish the opposition if they blamed it, rather than Mr Batlle's centre-right alliance, for the economic chaos that a default would bring. But it is unclear how good the opposition is at judging what is in its own electoral interests, says Mr Garce.

Uruguay's fate also depends on the wider world, and especially on its two big neighbours. An end to financial panic, and a return to growth, in Brazil would help. So would a resolution of Argentina's banking morass. And a livelier world economy would lift the prices of Uruguay's farm exports. At best, Uruguay faces a long, hard slog before it recovers its reputation as South America's Switzerland.

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Drugs in Colombia

The weedkiller war

Sep 5th 2002 | BOGOTA
From The Economist print edition

A big new effort to repress the cocaine industry

Get article background

LAST year, some 35,000 peasant farmers in the Colombian department of Putumayo, the world's largest single source of cocaine, signed pacts agreeing to pull up their coca bushes within 12 months in return for government aid. Thousands complied; many more did not—not least because aid was slow to arrive. Now Colombia's new government, supported by the United States, is all but scrapping this policy of voluntary eradication in favour of a big new push to spray coca fields with herbicide. After a decade in which coca production steadily rose in Colombia, American officials say that this year they will finally start to get on top of it.

Alvaro Uribe, who took office as Colombia's president a month ago, has made containing the country's guerrillas his top priority. The United States Congress recently approved an administration request to allow American military aid, previously targeted against the drug trade, to be used against the insurgents. But officials from both countries insist that fighting drugs is an integral part of tackling the illegal armies (of right-wing paramilitaries as well as left-wing guerrillas) which profit from and protect the cocaine trade.

That was the logic of Plan Colombia, a scheme backed with $1.3 billion in American aid in 2000. Only now are its full effects starting to be felt: extra crop-dusting aircraft (to spray coca fields), and helicopters to protect them and to destroy drug-processing labs, are arriving. Since July 28th, they have sprayed 20,000 hectares (49,400 acres) of coca in Putumayo. That compares with just 5,000 hectares eradicated voluntarily.

Even before the latest spraying campaign, there were some signs that coca output in Colombia was declining. Last November, the latest annual survey by the UN Drug Control Programme found that the coca crop had fallen by 11%, to 145,000 hectares. American officials reported a slight fall in the purity of Colombian cocaine. But Klaus Nyholm, the UNDCP's man in Colombia, says he has “more than a hunch” that the productivity of the country's coca fields has risen over the past five years, meaning that more cocaine could be coming from fewer hectares.

Andres Pastrana, Mr Uribe's predecessor, was reluctant to authorise all-out spraying. He feared that this would prejudice abortive peace talks with the FARC, the main guerrilla group, which controls much of Putumayo and neighbouring Caqueta. And critics say that spraying damages human health and the environment—as well as wiping out adjacent food crops. Officials counter that glyphosate, the herbicide involved, is harmless to health, and that the coca industry itself does huge ecological damage. Under Mr Pastrana, only commercial coca plantations, of three hectares or more, rather than family farms were supposed to be sprayed. Now there have been reports that this restriction has been dropped.

Although some of his advisers are said to be nervous about driving more coca farmers into the ranks of the FARC, Mr Uribe insists that spraying is needed. “If we don't destroy drugs, they will destroy our democracy and ecology”, he says. On September 3rd, he issued a decree speeding up the procedure for confiscating drug traffickers' assets. He is also keen on shooting down drug planes. According to Francisco Santos, the vice-president, a score of clandestine flights each week carry drugs to Venezuela, returning with arms. Such aircraft were routinely intercepted, with CIA help, until an incident last year in

which an American missionary and her baby were killed when their plane was shot down in Peru. American officials say they will soon authorise the resumption of the shoot-down programme.

As for providing coca farmers with alternatives, Mr Uribe says he supports “practical” projects, such as forestry. Few legal crops flourish in Putumayo, which is remote and has poor soils. Mr Uribe is due to travel to Europe this month to seek $300m in foreign aid to help 50,000 peasant families, two-thirds of them in Putumayo. But European governments, while criticising spraying, have not reached into their pockets to back the alternatives they claim to favour. Out of $113m pledged since 1996 to Plante, the Colombian agency for alternative development, $104m has come from the United States.

Opponents of spraying argue for a more patient approach. “You can spray a field in five minutes, but development takes more like five years,” says Mr Nyholm “When you spray, often the farmer replants coca, either on the same field or further into the forest.” Putumayo's governor, Ivan Guerrero, says that voluntary eradication, and Mr Pastrana's investment in roads and health posts in the area, led residents of his long-neglected department “to believe in the state again”. He hopes farmers will voluntarily rip up a further 5,000 hectares by the end of the year.

But under the new policy, officials hope to spray 121,000 hectares this year, up from 94,000 hectares last year—and faster than the rate of replanting, they claim. Whether that will hurt the FARC, and the other armed groups, more than it helps them, remains to be seen. And even if the Colombian coca crop falls significantly, all the signs are that Peru and Bolivia will take up the slack. Even if the Andean drug war has indeed entered a new phase, it is nowhere near over.

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Politics in Guyana

Tinderbox

Sep 5th 2002 | PORT OF SPAIN
From The Economist print edition

The fear of racial violence

Get article background

ON AUGUST 30th, Rasta chants and a march with the national flag marked the funeral of Andrew Douglas, a gangster killed in a gun battle with police. The fact that Mr Douglas was a national celebrity says much about Guyana's problems. A former policeman, he escaped from prison while awaiting trial for five murders. He then popped up on television, in army fatigues and with an AK-47, calling himself a freedom fighter. “Look into innocent black Guyanese problems or unrest will not finish,” he said.

What followed was a crime wave with racial overtones. Since February, eight policemen have been killed. The latest victim was Vibert Inniss, deputy head of the customs anti-narcotics unit, shot last month as he stopped to buy a newspaper in Buxton, the centre of much of the violence. The gangsters seem to be mainly Afro-Guyanese. Indo-Guyanese, who make up 48% of the population, feel targeted, and plan their movements carefully.

Guyanese politics, too, is uneasily split along racial lines. In July, two people were killed and ten were injured when protesters stormed the office of the president, Bharrat Jagdeo, during a meeting of Caribbean leaders. The mainly Afro-Guyanese People's National Congress, the main opposition, is ambivalent towards the violence, which it blames on youth unemployment, police brutality and corruption.

Several times in recent years, Guyana has seemed on the brink of widespread racial violence. So it looks once again. For five years, the economy has stagnated. Repeated attempts by Caribbean leaders, foreign diplomats and local mediators to get the two main parties talking have had limited success. The PNC ended the most recent dialogue in April.

Two attempts to re-start the talks are in progress. One is led by a Commonwealth representative, Sir Paul Reeves, a former governor-general of New Zealand. Meanwhile, the private business lobby, the trade unions and the local Bar Association have called a carefully-prepared meeting of all political parties for September 11th. The choice of date might just command some respect.

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Sri Lanka

To Thailand in hope

Sep 5th 2002 | BATTICALOA AND COLOMBO
From The Economist print edition

AP

But what will life be like if the Tamils win their homeland?

Get article background

IT COULD be “the best news to come out of South Asia in a long time.” So says a diplomat of the peace talks between Sri Lanka's government and the Liberation Tigers of Tamil Eelam (LTTE) that are scheduled to begin in Thailand on September 16th. On September 4th the Sri Lankan government un-banned the LTTE, one of the world's bloodiest insurgent groups. There are qualms about handing over territory to the group that perfected the craft of suicide bombing, murdered two heads of government and has liquidated any Tamil of significance who is more moderate than its reclusive leader, Velupillai Prabhakaran. But for now the Sri Lankan government, foreign powers and most Sri Lankans themselves seem willing to suppress those qualms. The prize is an end to 19 years of war between the government, which represents mainly the island's Sinhalese majority, and the Tigers, defenders of the aggrieved Tamil minority.

The war, which has killed some 65,000 people, has been bloodier than its causes seemed to warrant. Its origins lie in misguided attempts by earlier governments to promote Sinhalese interests at the expense of Tamil ones, especially by discriminating against the Tamil language. The Sinhalese have long been willing to make amends, largely by devolving power to the north-east, which the LTTE deems the Tamils' Eelam (homeland).

The characteristics that make this conflict one of the few with a prospect of resolution also make the solution potentially troubling. Last December Sri Lankans elected a government willing to hand over the north-east to an interim administration controlled by the LTTE. Big issues, such as how the north-east will fit into Sri Lanka's constitution, are to be worked out later. This arrangement may well buy peace. What it may not buy is freedom and security for the 2m or so people who would then be living under LTTE rule. Even for Tamils, life under the Tigers might be grimmer than it was under the Sinhalese-dominated government, vicious though its record has been. The government's trickiest task is to secure the rights of north-easterners without provoking the LTTE into resuming the war.

There is no mistaking the relief that peace has brought. People in the north-east celebrate the ten-month-old truce, which has silenced gunfire, lifted curfews and freed travel between “cleared areas” (controlled by the government) and “uncleared” ones, the domain of the LTTE. “The fear is gone,” says Arulanantham, a Tamil jeweller in Batticaloa, a big eastern town controlled by the government. Throughout Sri Lanka, more than 100,000 displaced people have returned to their homes or are on their

way. In Jaffna, the Tamils' cultural capital, the price of mangoes has quintupled with the reopening of access to the southern market. Farmers in the region are once again threshing their paddy crops at night.

Yet in the east, tension between peace and rights is already acute. Unlike the north, which is now almost purely Tamil, the east still has large Muslim and Sinhalese minorities. Here, relief is tinged with anxiety. Muslims in Kattankudy, near Batticaloa, have not forgotten that the LTTE slaughtered a mosque-full of people in 1990. They want to be governed by an authority separate from the interim administration, a concession the Tigers are highly unlikely to grant.

Tamils in uncleared areas already know the LTTE's ways. A woman hitchhiking with two companions turns out to be on her way to appeal to the LTTE to release her 17-year-old husband, who was locked up for desertion. A quarry worker near Batticaloa sent his son abroad after he escaped the LTTE's clutches; the father has since been detained six times. “People are scared,” he says.

Under the agreement with the government that Norway brokered, the LTTE is now free to operate politically in cleared areas. In Batticaloa it does more than that. It has drafted some children and imposed an extra 8% “tax” on civil servants' salaries. Last month the Tigers raided a Tamil newspaper, tying up its journalists and stealing equipment. Once the government pulls out, handing over power to an LTTE-controlled administration, worries B. H. Miller, an outspoken Jesuit priest in Batticaloa, it will be “the death of democracy.”

So can the government preserve both peace and democracy? Or will it, in effect, settle for one country with two systems, a militarised autocracy clamped on to the relatively democratic south? The foreign minister, Tyronne Fernando, insists that the “whole purpose” of the peace process is to “get [the LTTE] to come into the democratic process and to give up reliance on arms.” But its critics say the government, led by the business-backed United National Party, is over-eager for a deal. The prime minister, Ranil Wickremesinghe, has said that he will talk to the Tigers about anything but secession. The interim administration, when it comes, will not be an elected body. The closer talks get to such issues as democracy and disarmament, the stickier they will become. The government needs them not to get stuck. Last year, the economy shrank for the first time since independence.

The soft-pedalling of principle makes some Sinhalese nervous and the opposition aggressive. Many sceptics believe that the truest signs of the LTTE's intentions are its continued recruitment of children and the aggressive propaganda videos it screens, even in cleared areas, of its military exploits, including last year's attack on the airport in Colombo.

EPA

Prabhakaran, concealing his capsule

Scepticism could become obstruction, or even revolt. The president, Chandrika Kumaratunga, who leads the main opposition party, has the power to derail the peace process, for example by dissolving parliament early. Mr Wickremesinghe wants to curtail this power by constitutional amendment. This week a compromise looked likely, but the president will remain a potential troublemaker. A scarier strain of opposition could come from the JVP, a once-violent party that espouses an odd mix of Marxism and Sinhalese nationalism. Thousands of its supporters demonstrated in Colombo on September 3rd against concessions to the LTTE.

But the settlement may be less a surrender than many people fear. The LTTE, though ruthless and well armed, is also impecunious, an embarrassment the government intends to exploit. Contributions from the Tamil diaspora are down—but fighters' pay and widows' pensions are not. Financial leverage will be “an important factor,” says an official. Aid to the north-east will come through the central government with strings attached and donors to monitor how the money is spent.

The LTTE must also contend with outside powers, particularly the United States and Britain, which do not intend to un-ban the Tigers just yet and would probably arm the government if they resumed fighting. The Sri Lankan Monitoring Mission, a Norwegian-led group that observes both sides' adherence to the ceasefire, human-rights NGOs and the swelling flow of people between the north-east and the south will all help tame the Tigers. Under their gaze, recruitment of child soldiers has lately dipped in the east. Ordinary Tamils, most of whom are grateful to the LTTE for fighting the government to the negotiating table, will eventually assert themselves. “If they don't come in the democratic stream, they will not be tolerated by Tamils,” says a Catholic priest from Jaffna.

This may produce what a diplomat calls the “sloppy solution”—the gradual democratisation of the north-east through demography, commerce, pressure from abroad and from Tamils themselves. Though worse than a formal settlement, which would lay down democratic rules in the north-east, it would be far better than either war or repression. The question is whether the man with the cyanide capsule around his neck and suicide bombers at his command will let it happen.

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Indonesia's armed forces

Khaki power

Sep 5th 2002 | JAKARTA
From The Economist print edition

Though kicked out of parliament, the army is still a force to be reckoned with

Reuters

All Mega's men

WHEN Indonesia's parliament voted recently to abolish the 38 seats it reserves for the armed forces, pundits hailed the move as proof that the chief instrument of repression during the 32-year dictatorship of Suharto had finally been brought under civilian control. But Indonesian human-rights organisations still insist that the army enjoys unhealthy influence over the government, exploits this to pursue shady businesses, and commits abuses with impunity. This contradiction matters to more than local observers. The United States, too, would like to improve ties with Indonesia's top brass for the sake of the war on terror. But many in Congress are hesitant to resume military aid until it is clear that Indonesia's armed forces have really become servants of the popular will.

Everyone agrees that military influence has declined markedly since the army's heyday under Suharto. Two years ago, it formally renounced its “dual function” as guardian of political probity as well as of national security. The police, once under military command, now report directly to the government. Another reform bars serving officers from posts in the cabinet or civil service, which they used to dominate. Former soldiers are gradually being removed from provincial governorships, too, as their five-year terms expire. The loss of the army's seats in parliament, with effect from 2004, will mark its final exclusion from any overt political role. Agus Widjojo, the head of the military caucus in parliament, says that his fellow officers are happy to go.

But General Widjojo's notion of civil supremacy seems a little unorthodox. He speaks of “mutual respect” between the civilian and military authorities, and argues that politicians should not meddle in operational affairs. The humiliating treatment meted out to the top brass by Abdurrahman Wahid, a former president, justified their open defiance of him, in the general's view. Senior soldiers opine loudly and publicly on security policy. And on the whole, they seem to be getting their way: President Megawati Sukarnoputri's stance on Indonesia's many internal conflicts is far more hawkish than Mr Wahid's was.

Efforts to hold the army accountable for its brutal and often counter-productive handling of those conflicts also seem to have ground to a halt. The special tribunal set up to try those responsible for the devastation of East Timor, a secessionist province that has since become independent, has so far let off all military suspects scot-free. The attorney-general's office says it has no plans to mount more trials. In other restive provinces, such as Aceh and West Papua, soldiers still run amok, but only a handful of cases has ever come to trial.

The government also seems loth to pry too deeply into military finances. Only about a third of the armed forces' expenditure (no one is sure, since the figures are so opaque) comes from the state budget; they raise the rest themselves, by means both fair and foul. Military foundations run logging concessions, palm oil plantations, hotels, banks, an airline and all manner of other businesses. The army's presence in every district and village of the country (the so-called “territorial system”) gives it leverage over local politicians and officials. The army exploits this influence to win lucrative contracts, muscle in on land deals, run protection rackets, set up wildcat mines, and so on.

But all this is not quite as sinister as it sounds. At the national level, at any rate, the armed forces' apparent ascendancy stems more from a meeting of minds between Miss Megawati and the top brass than from manipulation. She, like her senior officers, is an ardent nationalist, with a hatred of disorder.

Furthermore, even on matters of security, the army does not always get its way: take, for example, the government's recent decision to defer a military escalation in Aceh, a step the high command had demanded for months.

What's more, corruption and impunity extend far beyond the army in Indonesia. The government seems just as lenient towards the businessmen who embezzled billions from the central bank, to name just one notorious case. This week, Akbar Tandjung, the leader of the formerly ruling Golkar party, was found guilty in a large fraud case, but sentenced to only three years in prison—too little, critics said. Some soldiers blame the government for all the armed forces' failings, since it is not pushing harder for reform. That is doubtless a cop-out. But these days, weak civilian leaders do seem a bigger threat to Indonesia than an overbearing army.

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Japan

Roads to ruin

Sep 5th 2002 | TOKYO
From The Economist print edition

Koizumi needs to take a new direction

WHICH map is Junichiro Koizumi using? Having wandered a long way from his initial reform pledges, he is now trying to redirect himself by straying overseas, with a trip to North Korea planned for September 17th. The visit, the first by a Japanese prime minister, has given his ratings a boost. But a more reliable route towards enduring popularity exists at home.

Mr Koizumi needs to tackle the problem of the overbuilt network of roads and bridges that criss-cross Japan, often duplicating existing routes or going where nobody wants to drive. The runaway construction that created this mess is one of Japan's most familiar and expensive headaches, and Mr Koizumi pledged to fix it when he took office last year. Since then, however, numerous compromises have sapped his credibility, and a much-touted panel of advisers, which released its interim report on highways last week, is still ducking the most difficult decisions.

While sending them off to finish their work, Mr Koizumi might also take a close look at the second glaring feature on the map: Nagano, a rural prefecture lying to the west of Tokyo, where a reformist governor won a thumping re-election victory on September 1st.

Yasuo Tanaka gained a fresh term by taking precisely the sort of risks that the prime minister has so far avoided. Like Mr Koizumi, Mr Tanaka first got into office by promising a thorough structural overhaul of government, and by distilling these sweeping pledges into specific and pragmatic reforms—most importantly, in Mr Tanaka's case, by vowing to stop the building of new dams. Also like Mr Koizumi, the rural governor has faced a hostile political assembly determined to thwart his reforms. Unlike Mr Koizumi, however, Mr Tanaka has stuck to his pledges despite this, halting construction on two dams and braving a vote of no confidence by the assembly. After refusing to compromise and appealing to the public, he has been rewarded with a convincing re-election.

Sadly, Mr Koizumi has consistently refused that sort of steadfast and edifying approach. He has backed away from dealing with banks' bad loans, and allowed his own party to gut his plans for privatising the postal service. And now he is failing to show leadership on road construction, even though he has said he wants to cut public-works spending. This failing seems even sadder now that the special advisory panel he appointed has helped to generate public outrage about the four public road and bridge corporations that Mr Koizumi says he wants to privatise.

One reason for this outrage is the nature of the panel, which holds its hearings in public and includes among its seven members Naoki Inose, an outspoken author who seems to delight in taking potshots at the highway lobby. The hearings have highlighted the huge losses rung up by the government's road corporations. They have detailed the corruption that allows connected private companies to make extortionate profits through roadside concessions. And they have exposed the dishonesty of the public companies' senior management, which lied to the advisory panel when it asked to be allowed to see their financial records.

As a result, 60-70% of Japanese now say that they would like to see the highway corporations overhauled and the building of new roads scaled back. Yet the details will be tricky—the panel has so far offered little in the way of solutions to the problems it has highlighted—and leave plenty of room for fudge. If highway reform is to matter, Mr Koizumi must recheck his map, grab the wheel of his government and steer it in a clear direction.

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The first Australians

It's our land

Sep 5th 2002
From The Economist print edition

But the aborigines remain poor

MEMBERS of the Larrakia people, Darwin's original inhabitants, raised an aboriginal flag in the city in 1971 and declared their traditional right to a small area of suburban land. This week, their claim to hundreds of acres of undeveloped land—much of it mangrove swamps and bush—in and around Darwin, the capital of Australia's Northern Territory, reached the Federal Court. It is the first "native title" claim over land in a state's capital city to come before the courts.

Native title rights have existed in Australia only for a decade. In 1992, in response to a claim by a group of Murray Islanders led by Eddie Mabo, the High Court reached the historic decision that the islanders were entitled to "possession, occupation, use and enjoyment of the lands in the Murray Islands". The Mabo judgment, which was later incorporated into the Native Title Act of 1993, overturned the legal concept of *terra nullius*, that the land belonged to no one until the British arrived in 1788. If indigenous Australians could demonstrate a traditional connection to their land, and as long as the land had not been sold to anyone else or affected by acts of government, native title could be claimed.

In the current case, the traditional connection of the Larrakia to the land seems clear. They remained on their land as Darwin developed; maintained sacred sites in the city area; and continued to hunt and fish locally. The present case will turn on whether the Larrakia have a legal claim to land that in the past was in private hands, but is now again owned by the Crown.

Yet whatever the outcome of it, the lives of the Larrakia are unlikely to be greatly improved. In the decade after the Mabo case, campaigners for a better deal for aborigines had hoped that things would change for the first Australians. But in 2000 a United Nations' team reported that aborigines still came off badly in employment, housing, health and education. Indigenous communities continue to suffer from disproportionately high levels of poverty, domestic violence, alcoholism, drug addiction and high rates of juvenile and adult imprisonment. An aboriginal man is 17 times more likely to die in custody than a white person, aboriginal unemployment is double the national average, and around 30% of aborigines are affected by diabetes.

While native title can offer a say over running national parks and the ability to negotiate mineral rights, in practice these are not very useful, since most of the land in question is deep in the outback, or, as in Darwin, is undeveloped swamp or bush. Fred Chaney, the deputy president of the National Native Title Tribunal, believes that for native title to do more than just protect traditional lifestyles, the government must help integrate indigenous Australians into the modern economy. If the Larrakia are to become more than "land rich, dirt poor", as a former Northern Territory chief minister once put it, they will need more than a successful day in court.

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The Internet in China

Stop your searching

Sep 5th 2002 | BEIJING
From The Economist print edition

Censors clamp down on foreign helpers

CHINA'S industrious Internet censors have hit on a new tactic. Until last week, they had focused on blocking access to websites containing material deemed inimical to the Chinese Communist Party. Now they are targeting search-engines that might lead users to such material. Two Californian search-engines—Google and AltaVista—can no longer be accessed through Chinese internet providers.

Google is particularly popular in China because of its ability to search for pages in simplified Chinese characters. Altavista also has a Chinese-language capability, but Google not only provides links to web pages, but also to copies of those pages stored on Google's computers. Even if a server is blocked, its content can sometimes still be read.

China has its own search engines, but they do not provide access to web pages stored outside the country. The government would be far happier if foreign search engines followed the example of Yahoo!, an American company whose Chinese search facilities offer sanitised results. A search on Yahoo! in simplified Chinese for the banned Falun Gong sect found only one web site, that of an anti-Falun Gong group, together with more than 180 news items culled from the official Chinese media. This year Yahoo! signed a pledge circulated by China's government-backed Internet Society which commits signatories not to disseminate information that might threaten state security or social stability.

The authorities are becoming particularly worried about possible threats to stability in the run-up to the Communist Party congress in November, an event which this year will involve extensive leadership changes. The party does not want disaffected groups such as Falun Gong stirring up trouble. Determined users in China, though, will always find ways of skirting around controls. There are ways into Google other than by typing in the regular www.google.com—for instance, by using a numerical address.

An American think-tank, RAND, published a report last week on the Internet in China. It said that while China has done a remarkable job of finding counter-strategies to what it sees as the negative effects of the e-revolution, time is on the side of its opponents.

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Famine in Ethiopia

Drought, death and taxes

Sep 5th 2002 | ASSAITA
From The Economist print edition

Corbis

Six million Ethiopians are going hungry. The weather, and a war, are to blame

A GREAT lake stretches across the desert, shimmering enticingly. Unfortunately, it is a mirage. The Afar region of Ethiopia, perhaps the hottest inhabited place on earth, is even drier than usual this year, and the people who live there have run out of food. Their beloved cows lie dead and dying in the hot sand. Many of the carcasses are so fresh that the storks and hyenas have not yet had time to peck or chew them clean.

In much of eastern, southern and northern Ethiopia, the rains have been rotten this year. In all, 5.9m of Ethiopia's 65m people need food aid or other assistance, according to the World Food Programme. The food shortage is not as terrible as the one in southern Africa. Nor is it as disastrous as the famine Ethiopia suffered in the mid-1980s. Ethiopia's current government is not indifferent to human suffering in the way its old Marxist dictatorship was, or Zimbabwe's government now is.

Nonetheless the situation is grim. Among the worst affected are the Afars, a tough, gun-toting people who subsist by herding livestock in the arid vastness of north-eastern Ethiopia. The Afars are almost all poor, but like most pastoralists, they have developed sophisticated methods for avoiding starvation. Their only assets are their animals, but they diversify their portfolios, so to speak, by breeding cows, goats, camels and sheep. Cows are a high-risk, high-yield investment. They breed fast and produce lots of milk, but they are the first beasts to die in a drought. Goats are scrawnier, but hardier. Camels are the toughest of all, but breed slowly. Afars have insurance, too, in their kinship ties. In hard times, those with spare livestock share with those who have not.

Despite all these precautions, Afars are often malnourished. Their nomadic traditions fiercely discourage them from settling down, but many have grown desperate enough to start rearing maize as well as cows and camels. Most years, these “agro-pastoralists” have enough to eat, but this year even they are suffering.

“All our cows died, and the ground is too dry to grow maize,” says Muhammad Oumar, a skinny father of four, squatting in the dust by a treeful of yellow orioles. Hunger has not yet turned to starvation in his village; the villagers hike 20km (12 miles) to Assaita, the nearest town, to sell woven mats or firewood and buy flour. But there is not enough to go around, and malnutrition has made many vulnerable to disease.

Children have no milk, and must make do instead with a thin porridge made from teff, an indigenous grain. The 15 households in Mr Oumar's village look after 20 orphans between them. In another nearby village of 100 homes, 13 people have perished in the past month, according to Muhammad Hassan, a peasant with sunken, cavernous cheeks. “We need food,” he says, “or we're going to die.”

The immediate cause of Ethiopia's food crisis is the weather. But political factors play a role, too. After Ethiopians shook off their Marxist overlords in 1991, food production rose steadily. But between 1998 and 2000, a pointless war with neighbouring Eritrea stymied progress.

Strong young men were summoned from their fields and sent to the front line. Tens of thousands of people were killed, and perhaps 350,000 forced to flee their homes. Families with members on both sides of the border were separated. Flour mills, bridges, power lines and irrigation systems were destroyed. Most aid was frozen. In all, the war cost Ethiopia $2.9 billion, according to the Ethiopian Economic Policy Research Institute, a private think-tank. That is almost a whole year's output for every farmer in Ethiopia; and more than 80% of the population live on farms.

Wanted: rain, aid and tax cuts

Another problem, strangely, is tax. Ethiopia abandoned feudalism in the 1970s, when the emperor, Haile Selassie, was murdered, but the old feudal habit of taxing peasants persists. The most irksome levy is payable on the land that peasants till, which they are not allowed to own, because the government owns all the land. The sums involved are small, but do not seem so to those who pay them. Mr Oumar usually hands over 60 birr ($7) a year, which he describes as “heavy”. The average Ethiopian income is only $100 a year, but most peasants earn far less.

Tax-collectors generally make an exception for those who are on the verge of starving: this year, Mr Oumar was let off. They tend not to tax nomads either, partly because they are hard to trace, and partly because so many carry submachineguns. But taxes levied on peasants in years when the harvest is good make it hard for them to accumulate a surplus to see them through the bad years.

What is more, taxes must be paid in cash, shortly after harvest time. To raise this cash, peasants all take their spare crops to market at the same time, which depresses prices and means they have to sell more of their crop to meet their tax bill. The tax raises negligible sums for the government (only 1% of total annual revenues), but inflicts serious harm on the most vulnerable Ethiopians. “If we don't pay,” laments Mr Oumar, “they say they'll take our land.”

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Islamic law in Nigeria

The attractions of sharia

Sep 5th 2002 | KADUNA
From The Economist print edition

Nigeria's sharia courts are harsh, but quicker and cleaner than secular ones

Get article background

Reuters

When she is weaned, her mother dies

PUBLIC executions make an ugly backdrop to a beauty contest. Nigeria will be host to the Miss World pageant in November, but several beauty queens have threatened a boycott in protest at the Islamic courts in northern Nigeria which have recently condemned four people to be stoned to death. One young woman, Amina Lawal, was condemned for having been made pregnant by a man who, she says, promised to marry her, but didn't. (Her alleged lover was acquitted.) None of the stonings has yet been carried out, but the controversy around Islamic law, or *sharia*, threatens to destabilise Africa's most populous nation.

Over the past two years, 12 predominantly Muslim states in northern Nigeria have adopted versions of *sharia* for criminal cases. Nobody minded when Muslims used *sharia* to solve land disputes and family squabbles, but the introduction of penalties such as flogging (for drinking alcohol), amputation (for theft) and stoning (for adultery) has outraged non-Muslims, sparked sectarian riots in which more than 3,000 people have died, and cast doubt on the central government's ability to uphold Nigeria's secular constitution.

However, most of Nigeria's Muslims applaud the imposition of *sharia*. This is partly because they believe it reflects the will of God, partly because Nigeria's secular courts are so awful. A former British colony, Nigeria inherited a judicial system based on English common law. Trials involve expensive lawyers, fussy procedures and lots of paperwork. The system is cumbersome and underfunded.

In crumbling courtrooms, judges take evidence in long-hand, court records are typed up on ancient manual typewriters, and law books are in short supply. Underpaid policemen, and judges too, often accept bribes to pervert the course of justice. According to Human Rights Monitor, a lobbying group, most inmates in Nigerian prisons are still awaiting trial. Many languish behind bars because their case files have been lost. Judges visiting congested prisons often release inmates because they have already served the maximum sentence allowable for the crime of which they have not yet been convicted.

In *sharia* courts, by contrast, disputes are settled without strict adherence to written rules of procedure. Cases are judged according to local customs and Islamic beliefs. Most people choose to represent themselves, which saves legal fees. The resultant justice may be rough, but it is quick. While it can take months just to get a hearing in a regular court, parties can get a hearing the same day in a *sharia* court, simply by showing up. Even Nigeria's justice minister, Kanu Agabi, admits that in *sharia* courts, “if a man owes you money, you can get paid in the evening. Whereas in the regular courts, you can sit in court for ten years and get no justice.”

The current dispute over *sharia* began in 1999, after a southern Christian, Olusegun Obasanjo, was elected Nigeria's president. His victory upset some Muslims, who had grown accustomed to seeing their co-religionists in the presidential palace. Almost immediately, northern states started extending *sharia* to criminal cases as well as civil ones. Its supporters argue that harsh punishments deter violent crime. But Christian leaders take a more cynical view: they argue that northern politicians are using *sharia* to consolidate their power base.

Mr Obasanjo, who wants to avoid more religious riots, and is also anxious not to offend certain powerful northern generals, has so far looked the other way. But he may soon have to take a stand. Ms Lawal's case is making its way through the appeals process and could soon end up before the Supreme Court, which may rule the *sharia* penal code unconstitutional (as the government has already said it is). Such a ruling should save Ms Lawal, but big trouble could follow.

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Iranian reform and anti-reform

Crushing the reformist pillars

Sep 5th 2002 | TEHRAN
From The Economist print edition

Having bashed the press and students, the conservatives threaten parliament

Get article background

"I ACCEPT that there is a sort of hopelessness in our society," admits Iran's reform-minded, and thus serially frustrated, president. At a press conference last week, Muhammad Khatami started to fight back at the conservatives who sap his authority. He would, he said, soon be presenting a bill that might better enable him to carry out his duties. But will it? Probably not, so long as the conservative establishment, led by Iran's supreme leader, Ayatollah Ali Khamenei—the "unelected few" in George Bush's words—retains its blocking power, and its hold on the judiciary.

Four obstacles stand between those unelected few and their outright victory: the Iranian people who have twice decisively voted Mr Khatami into power, the reform-dominated parliament, the reformist press and a bunch of brave young students. The judiciary crushed the student movement months ago. Now it has completed its elimination of the reform-minded press. It recently upheld the ban on *Norooz*, the last outspoken newspaper, and stopped two new ones from filling the void. Well over 70 papers, new and old, have been closed in the past three years.

So that leaves parliament and the people. But there is doubt how much stomach either have for a fight. Prison sentences are handed out freely. In July, 33 liberal politicians were sentenced to jail. None was a deputy, but Mohsen Mirdamadi, the managing director of *Norooz*, has been sentenced to six months in violation of his immunity as head of parliament's national security commission.

Parliament is in two minds. Last month, in an open letter that deplored the judges' "premeditated" verdicts, more than 150 reformist deputies wondered if there was anything, besides "seeking refuge in God", that could be done. These parliamentarians have a well-founded suspicion that the Council of Guardians, an appointed upper house that vets laws and parliamentary candidates, intends to disqualify dozens of them from seeking re-election in 2004. If that happens, they will loose even the less-than-reliable protection afforded them by parliamentary immunity, and will be easy prey for public prosecutors.

Last weekend, parliament gave the finishing touches to a bill which, if passed, would deny the Council of Guardians their right to disqualify electoral candidates. But the council itself may shoot this down. If so, more and more deputies may take the view that their only course of action is to resign. But refusing to co-operate has a price. The Revolutionary Guard has uttered warnings against actions injurious to "national morale". The head of the judiciary has indirectly accused reformist deputies of "the biggest betrayal of Islam, the revolution and the people."

Ah, the people; they are easily forgotten as the elite fiddles. Mr Bush latched on to demonstrations in July as evidence of popular mobilisation. They were nothing of the sort. Their tiny size, and the disproportionate brutality with which they were put down, came as a reminder that Iranians have rarely been so sullenly apathetic, or the forces of suppression so strong.

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End of a bit of history

Sep 5th 2002
From The Economist print edition

The 5,000-year-old way of life of the Marsh Arabs, celebrated by Wilfred Thesiger among others, has long been under threat. Its final disappearance is documented in “The Iraqi Marshlands” edited by Emma Nicholson and Peter Clark, and published this week by Politico's. As the accompanying map suggests, Saddam Hussein's aggressive drainage programme in the 1990s, which had the dual purpose or reclaiming land and pursuing rebels hiding in the waterways, turned much of the marshland into desert, depopulating the area. Some 200,000 of the inhabitants fled, many of them to refugee camps in Iran. The damage is probably irretrievable.

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Egypt's political scandals

Gamal, the brisk new broom

Sep 5th 2002 | CAIRO
From The Economist print edition

With the old guard in trouble, Mubarak's son may lead in the new

Get article background

AP

His father's heir?

POLITICS is rarely exciting in a country where one party and one president have ruled unperturbed for two decades. But a recent spate of scandals and a looming shake-up of Hosni Mubarak's National Democratic Party (NDP) are stirring Egyptians out of their conditioned torpor.

It is not that scandals are new to Egypt. Cairo's gloriously rabid gutter press regularly feeds on the carcasses of officials dislodged from the country's 6m-strong bureaucracy. Usually, the sacrificial victims are ex-ministers, or mid-ranking officials at a safe remove from real centres of power. Lately, the spotlight has shifted perilously close to stalwarts of the regime.

The presidency itself is, by Egyptian tradition, untouchable. So, too, has been a triumvirate of ageing ministers who have held their cabinet posts, and top commands in the party, almost as long as Mr Mubarak. In the past two months, however, prominent associates of all three have come under investigation.

The most recent exposé concerns an undersecretary in the Ministry of Agriculture, who police say was taped accepting a $3m bribe from a French firm to import its pesticides. Subsequent leaks unleashed a torrent of further charges, ranging from adultery to poisoning unsuspecting peasants with toxic chemicals to, horrors, consorting with Israelis.

Being alert to media excess, Egyptians were less surprised by the accusations than by the fact that the official had long been a right-hand man to Youssef Wali, who has been minister of agriculture, deputy prime minister and secretary-general of the NDP since the early 1980s. Mr Wali had vastly broadened the powers of his protégé, appointing him to more than 30 posts inside his sprawling empire.

Earlier this summer, Cairo's fraud squad had nabbed another powerful undersecretary, this time in the Ministry of Information. Muhammad Wakil, who was director of news for Egypt's ponderous state television monopoly, was caught taking a bribe to put a prominent doctor on a popular chat show. For 20 years the ministry has been the fief of Safwat Sherif, who also happens to be the NDP's deputy secretary-general. The minister was not directly implicated in the scandal. What hurt him were subsequent revelations that the man he had entrusted to dispense the country's carefully circumscribed news diet had been charging “clients” for years.

The third scandal, involving an investigation into banking fraud, touched a close associate of the minister for parliamentary affairs, Kamal Shazli. The minister is the NDP's chief whip, with a reputation for tough back-room dealing.

Taken separately, none of these cases would have raised an eyebrow. The opacity, complexity and sheer size of the Egyptian state have long encouraged graft. Similarly, the vast patronage network that has ensured the NDP a stranglehold on power—it has never scored less than 70% in a general election, and currently holds an 86% parliamentary majority—has also opened opportunities for self-enrichment. Corruption, Egyptians are fond of saying, is so endemic that the country would come to a stop without it.

What has set Cairo's rumour mills turning is the fact that these latest scandals coincide with attempts to

reform the NDP from within. Leading these efforts, since his appointment to the party's 25-member secretariat two years ago, is Mr Mubarak's son, Gamal. With the president having declared that new blood is needed in the party, and with a rare NDP conference scheduled to be held next week, Egypt's media keenly speculate that a purge of the party's top ranks is in prospect.

The wilder talk is of the younger Mubarak ousting the NDP's old guard as part of a careful process to legitimise him as the heir to the presidency. But nothing in Egypt is quite what it seems. There has certainly been internal party resistance to 39-year-old Gamal Mubarak's quiet rise. His father, however, has always been careful to build a consensus within the ruling circle before making any move. And the old guard have survived so long for a good reason: loyalty to the chief.

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Germany's election

Watch your step

Sep 5th 2002 | MUNICH
From The Economist print edition

AP

What kind of chancellor would Edmund Stoiber be?

Get article background

WITH barely a fortnight to go before the general election, the ruling Social Democrats, who have been lagging well behind for most of the past eight months, are now running neck and neck with the centre-right Christian Democrats. And Edmund Stoiber, the conservatives' candidate for chancellor, is beginning to lose some of his cool. After being pelted with eggs and tomatoes in Leipzig and jeered in Cottbus, he must have been relieved to be among friends at a conservative party rally in Dusseldorf last weekend. But as he strode triumphantly up to the stage amid dancing laser beams, pounding rock music and rapturous applause, he stumbled, falling flat on his face.

Was this an omen, many wondered? For the first time, one poll puts the Social Democrats and the Christian Democrats both at 39%, although according to most polls the conservatives still have a slight lead. The liberals, their likely partners, are forecast to get 7-9%; the Greens, the Social Democrats' preferred allies, 6-7%. With these results, neither camp could expect to command an absolute majority in parliament. But if the ex-communist Democratic Socialists fail to get the minimum 5% required to get them back into parliament, the party with the most votes, currently the conservatives, together with their liberal allies, would be assured of a parliamentary majority. Mr Stoiber would then become chancellor.

What kind of chancellor? From his programme, described by one of his potential liberal allies as “gutless and flabby”, it is difficult to judge. Though he has been depicted by his opponents as an arch-conservative, he puts himself firmly in the middle ground. On the economic front, he is certainly no conservative in the British or American sense. Coming from humble origins—his father started out as a scrap-metal merchant—he poses as the champion of the “little guy” and the *Mittelstand*, Germany's small and medium-sized companies, railing against corporate fat-cats and American-style “hire-and-fire” practices. His central values, he says, are social justice, individual freedom and tolerance.

In Bavaria, Germany's biggest and second-most populous state, which he has governed since 1993, he has shown himself to be more of an interventionist than a free-marketeer, pumping *euro*4 billion ($3.99 billion) of privatisation proceeds into high-tech industry. Bavaria now prides itself on being one of the most technically advanced regions in the world. The net number of companies setting up there each year is the highest among Germany's 16 *Länder* (states). It leads the country in the number of patents taken out each year. Bavaria, once one of Germany's poorest *Länder*, is now one of the richest.

But how much of this is Mr Stoiber's doing? When he became premier, he took over a state that was already flourishing. Long predominantly agricultural, Bavaria has had the advantage of being able to build its industry from scratch. Many of its best-known companies, like Siemens and Allianz, came after the war from Berlin and other bombed-out areas to settle in the relatively untouched southern state, acting as a magnet for others. Judicious public investment in infrastructure and generous subsidies have helped lure many more.

The state's unchanging politics has also been an attraction. Apart from a brief Social Democratic interlude in the 1950s, the Christian Social Union has ruled Bavaria continuously since the war. Franz Josef Strauss, Bavaria's premier from 1978 to 1988, led the move into technology. Mr Stoiber simply continued what his predecessor and mentor had begun. He has proved an energetic and efficient administrator, but no great innovator.

Over the nine years of Mr Stoiber's premiership, Bavaria's economy has grown by 18%—not spectacular, though well above the meagre 13% managed by western Germany as a whole. But the downturn in the world economy is now taking its toll on Bavaria too. Last year, its economy expanded by just 0.9%, ranking it a poor sixth for growth among the German states. Bankruptcies soared by 38%, giving Bavaria the highest bankruptcy rate in the land. Unemployment, while still low at 5.9%, compared with a west German average of 7.9%, has leapt by 20% over the past year. The recent collapse of Fairchild Dornier, an aerospace manufacturer, and the Kirch media empire (into which the state had sunk *euro*2 billion) has further damaged the Bavarian leader's standing.

Mr Stoiber accuses Mr Schröder and his Social Democrats of turning Germany into an economic basket case. But when Mr Schröder took over from Helmut Kohl in 1998, public spending, taxes, welfare contributions and the public debt were all at record levels. Mr Schröder has managed to bring them down a notch or two. Germany's ossified labour market, pension, tax and health systems, left virtually untouched under Mr Kohl, were all crying out for reform. Although often criticised for not having pushed through enough reform, in these respects at least, Mr Schröder has achieved more in his four years than Mr Kohl managed in his 16. If elected, Mr Stoiber might well be prepared to do more than he is at present willing to reveal. But there is nothing in his record to suggest that he would be any more of a radical reformer than Mr Schröder. Faced with fiercer opposition from the unions, he might even prove more timid.

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Switzerland and the world

The UN will do for now

Sep 5th 2002 | ST GALLEN
From The Economist print edition

The Swiss join the United Nations next week—still very much in two minds

"WE MUST preserve our special identity," says an influential columnist. "We must become normal," counters a leading politician. Many Swiss somehow want to fuse both these views—and keep their country ultra-independent and ultra-democratic, while nonetheless "opening up" to the world. With the decision to join the United Nations on September 10th, you might think the normalisers were winning. Indeed, after that, the European Union too? Do not bet on it.

Most Swiss are still wary of international clubs. After a referendum in 1992, they declined to join the European Economic Area. Then, in March 2001, they refused even to start talks to join the European Union. And though they voted in March 2002 to join the UN by 54% to 46%, the constitutionally necessary approval from the cantons was a much closer call. Few Swiss pundits foresee another referendum on the EU for a decade.

In the past year, however, the Swiss have cut special deals with the EU under which they get many of the economic benefits of membership. The country may, some say, emerge as a pseudo-member, able to choose its preferences *à la carte*. But political involvement and membership dues? No thanks.

Still, Switzerland's proud self-confidence—smugness, some would say—has taken a series of knocks recently. Revelations that banking secrecy had been used to deny to the descendants of Holocaust victims (and even some survivors) assets long dormant in Swiss banks made the Swiss look mean. They also made many Swiss feel prickly and victimised.

The pressure to erode Switzerland's bank-secrecy laws has increased relentlessly. The EU wants the Swiss to let it seek out tax-evaders (who are committing no criminal offence under Swiss law). The attacks of September 11th have added to the pressure. The biggest Swiss banks (UBS and Credit Suisse), the powerful private banks and all four of the country's main political parties fiercely insist that secrecy is a moral principle that cannot be discarded. But the tide of international sentiment is flowing the other way.

A huge knock to national self-esteem came last year with the collapse of Swissair, the airline that the Swiss considered a monument to their efficiency and modernity. Other setbacks have also hurt. The image of Switzerland's diplomatic service as staid but at least spotless has been tarnished recently. First, the ambassador to Berlin was recalled after a Swiss tabloid accused him, unfairly as it turned out, of sexual gallivanting. Worse, another Swiss ambassador, to Luxembourg, was sacked after being put under criminal investigation on suspicion of money-laundering.

Switzerland's highly decentralised system of direct democracy, coupled with its deep affection for consensual decision-making, does not make for strong government. No wonder the populist Christoph Blocher, the leading light of the Swiss People's Party, makes people nervous. His party is both the most maverick and, at present, the most popular of the four parties in power. Though his own inclinations are generally libertarian and free-market, he sometimes panders to the xenophobia of many of his voters. He wants to keep Switzerland out of all those worthy bodies, including the UN (too late to stop) and the EU (still to be fended off). And his personal fortune, put at over SFr2 billion ($1.4 billion), gives him a certain freedom to fight for his beliefs.

An opportunity to judge whether the Swiss are in benign or truculent mood will come on September 22nd, when they will be asked to endorse a plan that would involve putting the proceeds from no-longer-needed gold reserves into three boxes: one for a national pension fund, one to boost the cantons, one, inspired by memories of the Holocaust, into a fund for humanitarian causes. Mr Blocher is against that.

He would put the lot into the ailing pension fund. He gives voice to the feelings of many Swiss that they have been “blackmailed” long enough into making amends for their war-time behaviour, when they were surrounded by Nazis or their allies. He also sees a quick fix to an expensive problem. If he wins, it will be a sign that the old, frugal, inward-looking, self-reliant Switzerland, UN member though it will then be, may carry on for a while yet.

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Switzerland's democracy

Get those hands up, then!

Sep 5th 2002 | APPENZELL
From The Economist print edition

Local elections, Swiss style

“SOME intellectuals,” says the local newspaper editor edgily, “are starting to discuss whether we should continue with it.” But he was reluctant to name a single local who might actually speak out against the Inner Appenzellers' ancient custom of electing their half-canton's government by an open show of hands on the last Sunday morning of every April. They would, he explained, be damned as “traitors” by the majority who ardently feel that such traditions are vital for preserving their identity and fiercely democratic independence. Unless outside busybodies manage to invoke voting secrecy as a human right, as has happened in at least one other of the more conservative Alpine cantons nearby, the open vote, when 2,000 or so locals (in a population of 15,000 plus) fill the village square, seems likely to stay.

Only in 1971 were Appenzell men forced to let women vote in federal elections (after a national referendum). And only 12 years ago, again by a federal ruling, did women get the vote in cantonal and municipal contests.

Robert Nef, a zealous libertarian of Appenzell ancestry, argues for maximum independence not only of cantons but also of the communes within them, whose tax regimes can vary sharply. “We are going in the wrong direction,” he fears. He does not like the redistribution of tax revenues among the cantons, or other proposals for harmonising various policies of cantonal governments. Like other cantons, Appenzell tries to lure rich pensioners. It has abolished most death duties; other taxes are low.

A front-page headline last week in the *Appenzeller Volksfreund* extolled local bakers for promising to use local butter in their bread, even though that makes it expensive. Local farmers have shrunk from a quarter of the community to 4% in 20 years. For that, outsiders are blamed, as they are for most of modernity's ills. Appenzellers are fiercely opposed to Switzerland's joining any international body, let alone the European Union, for fear of being bossed about by outsiders—a term that includes people from Zurich (the commercial capital) and Bern (the political one). Last week Mr Nef was reassured to discover that few Appenzellers even knew the Swiss president's name.

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French politics

The Bermuda triangle

Sep 5th 2002 | PARIS
From The Economist print edition

Tough times ahead for the government

Get article background

BACK to work and back to reality: “The Raffarin government is the prisoner of a Bermuda triangle: an international economy in a bad way and lower tax receipts; a European Union budgetary policy which risks a recession; and the need to finance heavy spending plans.” Sour grapes from the opposition as France's politicians end their summer break? Perhaps, but Jean-Pierre Raffarin, prime minister of the new centre-right government, will find it hard to dismiss last weekend's pithy diagnosis from Jean-Pierre Chevènement, a minister in the former Socialist-led government.

Consider the evidence. World markets have tumbled and may fall further. The European Union, anxious to protect the euro, says its members must tighten their belts in order to balance their budgets by 2004. And yet Mr Raffarin, with a budget deficit of some 2.6% this year, must somehow fulfil the election promises of President Jacques Chirac, notably to cut taxes while spending more on defence, health and law-and-order. Meanwhile, unemployment, at 9% of the workforce, is edging up, and the fear lurks that trade unions will take to the streets and humble Mr Raffarin just as they did the last conservative prime minister, Alain Juppé, in 1995.

So what is poor Mr Raffarin to do? One answer is to avoid confrontation wherever possible. When France's schools reopened this week, the education minister, Luc Ferry, assured teachers that there would be no cut in their numbers next year—though only a few days earlier his deputy had noted that, with fewer pupils, fewer teachers would now be needed.

Similarly, in carrying out a promise to soften the effects of the shorter, 35-hour working week, the social-affairs minister, François Fillon, this week sided not so much with the bosses (whom else are they going to vote for?) as with the unions: the minimum wage, now splintered into six levels thanks to the phasing-in of the 35-hour week, will reach a uniform level by July 2005, with a rise for many workers of more than 11% over the three years. Moreover, though the minister will let employers increase a worker's overtime from 130 hours a year to as many as 180, his decree is likely to be valid only for 18 months.

Another answer, of course, is to play for time. Having secured agreement with its EU partners that it needs to balance its budget in 2004 only if economic growth in the meantime is at least 3% a year (roughly double this year's likely rate), France can wait for others to press for a change in the Union's “growth and stability pact”. After all, Germany's budgetary position is worse than France's, so Germany's hardline support for the pact may change once this month's elections are out of the way.

Conceivably, there is also a third answer: to rely on the left—swept from parliamentary power in the June elections—to remain in disarray, too weak to hit the government hard. Superficially, the notion looks tempting. At an annual meeting last week, the Socialist Party looked hopelessly divided between traditionalists and reformers. Competing party heavyweights, free to indulge their ambitions now that Lionel Jospin, the defeated prime minister, has chosen an abrupt retirement, concentrated not so much on the here and now as on their rival prospects for the presidential election in five years' time.

Unhappily for Mr Raffarin, there is a counter-argument, namely that the left—and, in particular, the Communist Party and the unions—needs to demonstrate its political relevance. And what better way than by mounting street demonstrations of teachers, nurses, farmers, civil servants and so on over the coming weeks? No wonder, then, that the emollient Mr Raffarin is so anxious to avoid the confrontation that eventually led to the departure of the abrasive Mr Juppé. The trouble is that fending off confrontation is not the same as avoiding the Bermuda triangle.

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A governor's election in Siberia

Replacing Lebed

Sep 5th 2002 | KRASNOYARSK
From The Economist print edition

The contest for control of one of Russia's richest regions

IT IS like Brobdingnag without the giants. Four times the area of France, and source of a fifth of the world's nickel and two-fifths of its platinum, Russia's entire Krasnoyarsk *krai*, or region, has only about as many inhabitants as Boston—and despite their land's vast natural wealth, they are as poor as church mice. “Russia in miniature,” a former governor called it. A place of such proportions needs a leader to match. Alexander Lebed, the charismatic former general who ran Krasnoyarsk for four years, was a big man all right, but not much of an administrator. He died in a helicopter accident in April, and 14 people are in the race for his job. The first round of polling is scheduled for September 8th.

The favourite to win is Alexander Uss, a jurist who is the speaker of the regional assembly, having been one of Lebed's sharpest critics. He plays on the popular distrust of outsiders coming in to run the *krai*. Challenging him for the same voters is Pyotr Pimashkov, a local party hack, and mayor of the capital. Alexander Khloponin, in close third place, could not be more different. A clever fresh-faced 37-year-old who arrived in the region only in 1996 as boss of the giant Norilsk Nickel mining company, he now governs the northerly province of Taimyr, which contains the company town of Norilsk.

All know that they need to put Krasnoyarsk's resources to work more effectively. Metals are mined and wood is cut, but they are usually exported for processing and manufacturing, leaving the *krai* bereft of local industry. Taxes from Norilsk Nickel's mines provide nearly 70% of the regional administration's income. Depressed world metal prices, plus a poor economic policy and political instability under Lebed, mean that this year's revenues will be far lower than projected—perhaps by as much as 40%.

There is less interest in the candidates' policies, however, than in their backers. Mr Khloponin hopes to reduce Norilsk Nickel's influence by making the *krai* less dependent on it for its budget. But few believe this, not just because of the size of the company he used to run but also because it still gives him a hefty pay-cheque. On the other hand, Mr Uss's supporters, though broader-based, include big companies such as Russian Aluminium, which owns huge smelters in the region, and Yukos, an oil enterprise. They also include Anatoly Bykov, a wheeler-dealer businessman who recently incurred a suspended prison sentence for conspiracy to murder (though he is so popular that he was elected to the local assembly even while in jail in Moscow, awaiting trial). Mr Pimashkov does not have such powerful support, but at the last minute, he was almost suspended from the race on suspicions that he had broken campaign rules.

Locals, however, seem not to worry much about such issues. “Of course they will have their own interests; the important thing is that they think about the *krai*'s interests in parallel, not in second place,” says Evgenia Bukharova, dean of the state university's economics faculty. A bigger concern is how they will get on after a generally acrimonious campaign. The winner will still have to deal with the losers, who will return to their current public posts. They will have to work hard to restore harmony—or else, as in Lebed's day, political infighting could make it even more difficult for the region to find the investment it needs.

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Landmines in Kosovo

Time bombs

Sep 5th 2002
From The Economist print edition

Cleaning up the mess

WHEN NATO demanded, during its 1999 bombing campaign, that Yugoslavia should allow refugees to return safely to Kosovo, the western coalition did not say that NATO itself had some work to do. American, British and Dutch planes dropped more than 1,500 cluster bombs on the province in three months, leaving an estimated 20,000 unexploded bomblets on the ground. Together with the thousands of landmines laid by the Serbian army, police and paramilitaries, NATO unexploded ordnance guaranteed Kosovar refugees anything but a safe return. A huge effort has been made to clean up the area, but is Kosovo now safe?

Even when the fighting stopped, simply going to school or gathering firewood for cooking was a potentially life-threatening activity in many areas: landmines and unexploded bombs caused over 340 casualties in the first six months after the fighting ended, and all in an area half the size of Wales. The response, however, was unprecedented. Governments rushed to give about $85m to tackle the problem. The United Nations' Mine Action Service took on the task of co-ordinating the many organisations paid to carry out the clearance work. Controversially, the UN decided that its clearance of known dangerous areas was to be completed by December 2001. A new Kosovo Protection Corps, part of the local administration, would then take over from the NGOs and deal with any residual landmine threat to civilians.

In spite of this ambitious exit date, the programme to clear the mines in Kosovo has been a resounding success, says the UN. The casualty rate has been reduced to about one a month. The work was handed over to the protection corps as planned, which promises to reduce casualties still further. Important lessons, the UN argues, have been learned about effective and efficient mine clearance.

Others are less convinced. The Halo Trust, a mine-clearance organisation, has complained that the UN ordered it to stop work on a cluster-bomb site, even though unexploded bomblets remained. The UN said the site was clear. Last month, when the BBC's “Face the Facts” programme visited Kosovo, its reporters found unexploded cluster bomblets at the site, though farming had resumed and children were at play. Meanwhile, doubts persist about the Kosovo Protection Corps. NGOs have laid off more than 800 trained Kosovar mine-clearers, but the protection corps recruited 105 new and inexperienced staff. These were mostly former fighters from the Kosovo Liberation Army, who were being demobilised. Money—surprise, surprise—is also an issue.

If the problems reported by the Halo Trust and the BBC turn out to be isolated mistakes, the protection corps should have little work to do. But if many more bomblets have been overlooked, Kosovars may have to watch their step for a long time.

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Italian football

A long dry season

Sep 5th 2002 | MILAN
From The Economist print edition

The troubles of Italian football

Get article background

THIS has not been a good summer for Italian football. For the first time since the second world war interrupted play, the kick-off of the leading league, Serie A, has been postponed, to September 14th. The traditional summer transfer market for players has been weak. Yet Italians talk about *calcio* as never before. The reason? Money—and Ronaldo, a Brazilian star footballer, whom Inter Milan has just sold to Real Madrid.

A financial crisis has been simmering for some time. The top teams spend too much (to buy good players and pay their salaries) and make too little (from tickets, merchandising and television rights). Until now, appalling finances were the norm. This year, however, the football authorities asked clubs to balance their books. Fiorentina—Florence's beloved team—declared bankruptcy and is now enrolled in the fourth division under another name, Florentia. Other teams, such as Parma and Rome's Lazio, have had to sell their best players. The market has been reduced to barter: players have been exchanged, but with little money changing hands. Some of the top players have been told to prepare for salary cuts.

All teams counted, as usual, on television money. But state television said it would pay just half the *euro*84m ($75m) it forked out last year, and pay-TV channels were interested only in the top teams. Offered a meagre *euro*4m each at first, eight smaller Serie A teams refused to start the season. The league asked for tax breaks. It was turned down.

Then, as the transfer season was about to close, three teams decided they could afford to spend some money on new blood. One, Juventus of Turin, did it because its books are in order. AC Milan's chairman has plenty of money and loves to win (his name is Silvio Berlusconi). The third, Inter Milan, spent *euro*91m on new players, after pocketing *euro*45m from selling Ronaldo.

That was the biggest news of the Italian summer. Ronaldo has twice suffered career-threatening knee injuries, and was pampered back to fitness by Inter Milan—just in time for the World Cup in Korea and Japan, which he helped his country win. On holiday in Brazil, he said he wanted to move to Madrid. This may have had less to do with greed than with the current excellence of the Spanish league and of Real Madrid in particular. Inter Milan's chairman, Massimo Moratti, was upset. Supporters were flabbergasted. Acres of newsprint were devoted to the saga. The day he left, an angry mob shouted abuse and broke his car windows. So, Italy's football fans are busy. But there is no football, yet.

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Charlemagne

Fear of America, and of being left out

Sep 5th 2002
From The Economist print edition

Why Europe will probably give in over Iraq

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EMINENT Americans visiting Europe recently often seem to find themselves in a state of bewilderment, almost as if they had stumbled into some sort of parallel universe. “We in America think of September 11th as an event that changed the world,” says Bill Kristol, editor of the neo-conservative *Weekly Standard*, “but the Europeans seem to regard it as an event that changed America.” Robert Kagan, author of a much-applauded article on the gulf between Europe and America, comments that “American policymakers find it hard to believe, but leading officials in Europe worry more about how the US might mishandle the problem of Iraq—by undertaking unilateral or extra-legal military action—than they worry about Iraq itself.”

Both observations are broadly accurate. Together they go a long way to explaining the division that has opened up between Europe and America over the past year. Most Europeans reacted with genuine horror to the attacks on New York and Washington. But they were much less likely than Americans to think that September 11th “changed everything”. In private, European leaders sometimes note, a touch condescendingly, that Europeans have had to live with terrorism for many years: Britain has had the IRA, Spain has had ETA, an Italian prime minister has been murdered by the Red Brigades, and so on. So September 11th marked a new era only because it ended a period of American innocence and apparent invulnerability, not because it introduced the world to something altogether new.

Such views risk glossing over the scale and symbolism of the attacks. In a single day al-Qaeda murdered more than three times as many people as ETA has killed in over 40 years. But the European sense that September 11th was significant above all because of its effect on America leads directly to the second point, picked up by Mr Kagan. This is the fact that many European policymakers worry more about America's reaction to terrorism than about Iraq. George Bush's “axis of evil” speech animated a fear that America might launch one regime-changing war after another, setting fire to the Middle East and ripping up international law in the process. The moralistic tone of the speech also made some Europeans squirm. With the exception of Tony Blair, who shares Mr Bush's taste for epic struggles between good and evil, few European leaders are yet inclined to see Saddam Hussein quite as the Bush administration does. An evil man? Undoubtedly. A “clear and present danger”? The Europeans still need convincing. Recognising this, Mr Blair has promised to produce a dossier of evidence about Iraq, and the Bush administration is likely to follow suit in the next month.

Might this yet bridge the divisions? Something close to a common EU position is in fact emerging. Europe would press for the readmission of weapons inspectors, urge America to work through the United Nations, and in the last resort back a war only if it had been authorised by a new UN resolution. The emergence of mainstream voices in America urging a similar course of action has given encouragement to European officials, who a few weeks ago were more or less resigned to America going it alone. An opinion poll released this week by the Chicago Council on Foreign Relations also points to a convergence of European and American views. Big majorities on both sides of the Atlantic approve of the idea that America “should only invade Iraq with UN approval and support of allies.”

But things may not be that simple. What if the UN route threatens to be a dead end? It is easy to foresee how the Iraqis might spin out negotiations over weapons inspectors, or Russia or China or even France might refuse to approve a UN Security Council resolution authorising the use of force. The temptation for the Americans to choose unilateral action in preference to multilateral inaction is strong. Any prevarication, and the meeting of minds between the Europeans and Americans would probably end. Indeed dig a little deeper into the opinion polls and the divisions of opinion are still there. The Council on Foreign Relations poll found 75% of Americans favouring “use of US troops to overthrow Saddam

Hussein's government". The same question appears not to have been asked in Europe. But a recent ICM poll in Britain—usually the most hawkish and pro-American country in Europe—found only 33% approval for "a military attack on Iraq to remove Saddam Hussein".

Oh, well. If you must

So what happens if the Americans ignore the wise counsels of the Europeans and the strictures of the UN? There is a common view in Washington that the Europeans whine a lot, but ultimately will always come around when presented with a *fait accompli*. Like many stereotypes, this one has more than a grain of truth to it. Even if America attacks Iraq without UN support, the Europeans may indeed still rally round. The British will almost certainly be there. Jose Maria Aznar of Spain and Silvio Berlusconi of Italy are both right-wingers and instinctively pro-American. The German government under Gerhard Schröder has been outspoken in expressing its reservations about the use of force in Iraq, but Germany is in the midst of an election campaign and might change its tune under a new government. Even the French, speculates one EU official, may ultimately "not be able to resist fighting alongside the world's only superpower."

A swift victory would also help. Many of the fears about a "new Vietnam", global instability, civilian casualties and excessive American reliance on force were expressed before the first Gulf war, before the Kosovo fighting and before the attack on Afghanistan, only to dissolve once things worked out. Another display of overwhelming American force, plus revelations about the full horrors of Saddam's regime, might quickly consign European reservations about a war on Iraq to the memory hole.

And if things go wrong? Well, there is always the satisfaction of saying, "I told you so."

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Britain, America and Iraq

Blair's big risk

Sep 5th 2002
From The Economist print edition

In the face of much opposition at home, Tony Blair is sticking his neck out over Iraq. Why?

Reuters

Get article background

TONY BLAIR has an almost mystical faith in his powers of persuasion. In his meeting with President Bush at Camp David on September 7th, he will need all his skill if he is to reconcile his party's growing hostility to a strike against Iraq with the American administration's insistence that there has to be a regime change in Iraq.

At a press conference this week Mr Blair struck a hawkish line, stressing that Britain was ready to join America in military action to enforce UN resolutions. He was sceptical whether Iraq would accept the return of weapons inspectors. And he even suggested that "regime change" in Iraq was a shared objective.

But the tone of the prime minister's private talks with the president will be different. He will have been relieved by the more internationalist line coming out of Washington over the past few days; officials say he will focus on the need for the widest possible international backing for action against Iraq. This would almost certainly require the involvement of the United Nations: a new Security Council resolution and negotiations on the return of weapons inspectors backed by a deadline. Mr Blair is also expected to stress the need for progress to resolve the conflict between Israel and the Palestinians.

Mr Blair knows that by backing America he leaves himself dangerously exposed. Gerhard Schröder, the German chancellor, has already said that Mr Blair did not speak for Europe, and has accused him of "submitting" to the will of Washington. Denis Healey, a former Labour defence secretary and a notable Atlanticist in his time, has also warned: "I don't think he [Blair] would survive overwhelming public and party opposition to British support for an American attack."

The Labour Party, whose sentiments Mr Blair tramples at his peril, is worried. More than 160 MPs have signed a Commons motion expressing "deep unease" at the prospect of war with Iraq. Labour's trade union backers are almost certain to pass hostile resolutions at their annual conference next week; there will be similar ructions at Labour's own conference later this month. Even Mr Blair's own constituency agent, John Burton, who first spotted his protégé's political talent, admits to doubts: "People would like more proof that Saddam Hussein is as dangerous as George Bush says."

Remarkably, in five years of office, Labour has not suffered a single resignation by a cabinet minister. But a pre-emptive strike against Iraq could change that. The international development secretary, Clare Short, was one of three front-benchers who resigned over Labour's support for the first Gulf War in 1991. When pressed to say whether she would resign if Britain joined America in action against Iraq, she replied: "I don't expect the government to breach them [my principles], but if they did I would resign." Several other cabinet members have also let it be known that they are unhappy with Britain's unqualified support for America, notably the leader of the Commons, Robin Cook.

Unease in the cabinet is mirrored by opinion polls, which have repeatedly shown large majorities against a pre-emptive strike. An ICM poll found that at an attack on Iraq without UN backing was supported by only 12%.

So why is Mr Blair sticking his neck out for Mr Bush? First, because he thinks that it is right to do so. The risks of not taking action against Iraq, he believes, are greater than the risks of doing so. He has a history of standing firm on issues he believes in, in foreign affairs at least: witness his chivvying of the rest of the world to take action against the Serbs in Kosovo.

Second, Mr Blair believes that a widening split between America and Europe, at this tense time, would have disastrous consequences for world stability. He reckons he is better placed than anybody else to try to close that gap.

Third, the issue goes to the heart of Mr Blair's world view. He believes that the growth of American power since the end of the cold war means that anybody who wants to change the world for the better can do so only with American assent. American power must be harnessed as a force for good in the world, and only a loyal ally—such as he has shown himself to be—can achieve that.

Fourth, set against the risk there is a large potential reward. If military action goes ahead, if it is successful, if Iraq looks reasonably stable afterwards and if the world is a safer place as a result—then all the carping will be instantly forgotten.

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Environment

How green is our Tony?

Sep 5th 2002
From The Economist print edition

Tony Blair sounds greener abroad than he looks at home

CHAMPIONING green growth on the world stage is one thing. Making it happen at home is another. This week Tony Blair toured Africa preaching the gospel of sustainable development—a woolly notion bundling nostrums such as more aid, good government, and technological innovation, with nods towards free trade and cuts in farm subsidies.

The government likes to think it is leading by example. Britain has indeed done better than most rich countries in meeting the pollution targets set at the last UN-sponsored green talkfest in Rio, in 1992. And the country's air and water are cleaner, Mr Blair boasted in Mozambique, than since before the Industrial Revolution. “We know the problems. We know the solutions. Let us together find the political will to deliver them,'' he declaimed at the sustainable development summit this week in Johannesburg.

But being green means more than being clean and preachy. At home Mr Blair is in trouble with critics, both inside and outside the government, for timidity and slowness on other environmental issues (see table). His own environment minister, Michael Meacher, said last month that he felt like a “lone voice in the wilderness'' and that the government “failed to grasp the magnitude'' of environmental challenges. Jonathon Porritt, an influential moderate green who works closely with the government, speaks of “paralysis'' and “patchy leadership''.

Ten green bottles

	Where the greens say Tony bottled out	Alternatively
Big business	Too cosy, unwilling to squeeze	Blair commendably pro-growth and trade
Energy	Move to renewables behind schedule	Renewables trendy but sadly still uneconomic
Roads	Car use has rocketed	People like driving
Trains	Chaos	True, but no easy fix after decades of mismanagement
Carbon	Big exemptions for big polluters	Innovative auction and levy introduced
Countryside	Caving in to housebuilding lobby	More houses needed
Recycling	Failing to reach targets	Expensive way of getting rid of rubbish
GM	Pro Frankenstein foods	GM means higher yields, less pesticide
Agriculture	Big firms and farmers dominate	True. So what?
Airports	New London airport likely	People like cheap air travel

Source: *The Economist*

On one big question where Mr Blair takes a tough line internationally, that of cutting the use of fossil fuels, the government is nowhere near reaching its own target. “For all that we were taking the lead in Johannesburg, here in the UK we're lagging,'' says Mr Porritt. Britain aims to produce 10% of its energy from renewable sources by 2010. Last year the proportion actually fell from 2.8% to 2.6%. The government's underlying weakness in green eyes is that it is too close to business and too frightened of unpopularity. British industry has managed largely to escape the effect of the new policy on carbon emissions, which involves a levy introduced last year and tradable quotas. The biggest polluters (who happen to be big and politically well-connected industries, such as chemicals) have had generous exemptions from the levy, mostly in return for signing up for long-term targets to improve their energy efficiency. “It is questionable how much real CO_2 reduction there will be,” complains Mr Porritt.

The government's green principles also tend to wither in the face of public opposition. The most notable example was a humiliating backdown over petrol tax in the summer of 2000. Although the real cost of motoring had actually been dropping, the government quickly caved in to a motley and hysterical series

of protests, dismaying those who see higher fuel prices as the best way of forcing more use of trains, buses and bikes.

Indeed transport policy—probably the bit of government that most combines environmental and political sensitivities—looks bogged down all round. Roads are congested as never before, the railways decrepit. Despite cheery talk from ministers, no improvement is in sight. The most interesting new ideas are coming from the mayor of London. With considerable political courage, “Red” Ken Livingstone has pushed through green measures such as a £5 ($7.50) congestion charge in the city centre, due to be introduced early next year. This excites green-minded economists—but leaves the government cold.

Sour green grapes

The main reason for the failure of the government's green intentions, however, seems to be bad organisation. That's certainly at the bottom of Britain's growing fridge mountain.

This blot on the landscape originates in one of the slew of environmental directives coming out of Brussels. A tough new EU directive on fridge recycling has caught Britain seemingly unprepared, and led to old fridges piling up, rather than meeting the orderly end planned by the Eurocrats. The government “is simply not linking what goes on in Brussels with what goes on at home,'' complains Malcolm Hutton of Environmental Resource Management, the consultancy that runs the government's emissions auction.

Most of the criticism of Mr Blair's environmental policies is less well-founded. After all, listening to a large number of voters and wealth-creators rather than a small number of green lobbyists is reasonable behaviour for a democratic government. People do worry a bit about global warming, but still want cheap and punctual air travel, for example, and that probably means another airport for London. If Mr Blair is not as green as he likes to appear to be, it's probably just as well.

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Television

Absolutely frightful

Sep 5th 2002
From The Economist print edition

The BBC is doing very well. So why is British television so bad?

THE BBC, whose job is to be the guardian of quality in British television, is in triumphant form these days. This week, it secured for the first time a £350m ($550m) borrowing limit from the Treasury specially to develop its commercial arm. This autumn, it will expand its digital empire with the launch of "Freeview", a free multi-channel terrestrial service, on the licence it scooped up after the collapse of ITV Digital. Odd then that the British TV industry is suffering unprecedented angst about the quality of the stuff it makes.

"The idea that British television is teeming with...creative risk is a joke," declared Mark Thompson, the new boss of Channel Four and ex-head of television at the BBC, at last month's television festival in Edinburgh, where TV types traditionally gather to celebrate their triumphs: "so much of it just feels dull, mechanical and samey." Today's programming, added Tim Gardam, Channel Four's director of programming, was plagued by "formulaic conformity".

Particular venom is reserved for the BBC. Mr Gardam accused it of "machismo", arguing that its relentless quest for ratings under Greg Dyke, the director-general, had led it to lose its sense of what it believes in—"besides believing in the BBC". Mr Dyke, claimed David Liddiment, outgoing head of programming at ITV, Britain's biggest commercial broadcaster, was "providing a terrible disservice to range and quality and cultural values in Britain." Paul Bolt, head of the Broadcasting Standards Commission, a watchdog, described popular BBC dramas as "humdrum, over-familiar and formulaic".

Some of this can be put down to corporate rivalry. ITV has been battered by both the advertising slump and the failure of ITV Digital, its disastrous experiment with pay-TV. It has also been losing viewers to the BBC. While in 2001 ITV still led BBC1 in the ratings, this year it has been trailing behind the BBC's flagship channel, with 24% of viewers to BBC1's 26%. Even Channel Four is losing money for the first time in years. All the while, the BBC sits snugly on top of the £2.5 billion it collects each year from owners of TV-sets.

Yet the whingers have a point. The occasional gem that the BBC still produces, such as "The Blue Planet", a nature programme ritually rolled out as a counter to these charges, serves chiefly to highlight the mediocrity of the rest of its schedule. British drama is a poor shadow of its American counterpart, where original, intelligent output—from HBO's "Six Feet Under" to Fox's "24"—is thriving.

The BBC itself remains apparently untroubled by any of this. That BBC1 has swept the news from its prime-time schedule to make way for more soap and failed American reality shows such as John McEnroe's "The Chair", that even BBC2 now fills its prime-time with new game-shows such as "Liar", is a matter of pride, not shame, within the organisation. Yet there is a danger in the focus on ratings. As Mr Gardam put it: "If [the BBC] exploits its current strength in purely market terms...it may jeopardise its reason for being."

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Scotland

Chips with everything

Sep 5th 2002
From The Economist print edition

Especially the English

WHAT'S got into the Scots? You might think they would be feeling rather self-confident these days, since not only do they now have their own parliament and executive but they also seem to run the rest of the United Kingdom. Tony Blair (prime minister), Gordon Brown (chancellor), Helen Liddell (Scotland), Robin Cook (leader of the House of Commons), Derry Irvine (Lord Chancellor) and John Reid (Northern Ireland) are all Scots. Even so, the Scots are not happy.

The problem, apparently, is the English. A rising sense of nationalism has been accompanied in recent years by a growing feeling of antipathy to the neighbours south of the border. During the World Cup, many Scots, egged on by their biggest-selling paper, the *Daily Record*, cheered all England's opponents to the echo. More sinisterly, incidents of bullying English children at school rose sharply, with ChildLine Scotland reporting a sudden increase in calls from despairing English children.

Now an outsider has dared to join in. Digby Jones, head of the Confederation of British Industry, seeking to explain why Scotland's economy is not doing too well, suggests that the Scots' failure to welcome English investors is partly to blame. “Scots seem to have an enormous chip on their shoulder.”

He is right. But the odd thing is why they should have acquired it, or chosen to display it, so recently. Plenty of other peoples revel in the injustices done to them over the centuries: the Irish and Quebeckers have only recently emerged from aeons of resentment about their sufferings at the hands of others (ie, the British), and the Serbs have yet to follow. But their sufferings were at least real. The Scots have no good reason to feel especially hard done by. Their victimhood is an invention—like, it has to be said—much of the rest of what passes for history in Scotland, from the romantic myths about kilts and tartan to the fatuous film “Braveheart”.

Andrew Wilson, a Scottish Nationalist member of the Scottish Parliament, says Scotland must lose its national chip if it is to rise above “mediocrity”. But Ross Finnie, a Liberal Democrat minister, shows that may be hard. Rising to Mr Jones's bait like a finnan haddie, his bold rejoinder was to call the CBI chief an “English prat”. Oh, flower of Scotland! Had he not then followed an order to apologise, he might have found a place in the Scottish pantheon along with bravehearted Mel Gibson.

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Industrial disputes

The fireman's lot is quite a happy one

Sep 5th 2002
From The Economist print edition

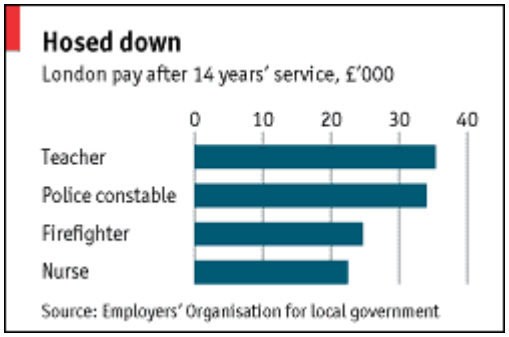
Firefighters are not very well paid. So why do so many people want to be one?

THE prime minister doesn't much intervene in industrial disputes. Presumably it was the eye-popping size of the Fire Brigades Union's pay demand that provoked him to comment this week on the negotiations between firefighters and their employers. The FBU is asking for a 40% increase on firefighters' basic salary of £21,531, to bring them up to £30,000 a year. The Local Government Association has offered a 4% raise, which has been rejected, and an overhaul of the existing pay formula. Tony Blair backed the LGA, saying that it would be economically disastrous if the FBU's petition was met.

The union has scheduled another meeting for September 12th. Most of the country's 41,000 fire-service workers will vote on whether or not to go on strike. If, as seems likely, they ballot in favour, the armed forces stand ready to step in. Meanwhile, unofficial strikes which started in Scotland at the beginning of the week are spreading southwards.

The FBU is concerned that pay rises for its members have been falling behind those in other public-service jobs. The cause, it says, is an outdated pay formula that was established after its last big strike, in 1977-78, which linked firefighters' wages to those of industrial workers. With the relative decline of industrial wages, firefighters' raises have been meagre, even as their duties have increased.

Firefighters do come quite low down in the public-sector pay league (see chart). Yet, interestingly, this does not seem to deter applicants. At a time when schools and hospitals are struggling to fill vacancies, the fire service is having no trouble either finding recruits or keeping them on once they have joined. The last time the Greater Manchester County Fire Service put out a general advertisement in the local press to recruit new firefighters, they received some 7,000 replies for 50 vacancies. It's pretty much the same elsewhere. Turnover in the fire service in London was 5.6% last year, compared with around 15% for the labour market as a whole.



Spend some time in a fire station, and one reason for this impressive retention rate soon becomes clear. Firemen like their jobs. There's the respect, which, especially since September 11th, comes not only from ten-year-old pyromaniacs. And there's the camaraderie. The fire service is one of the few almost exclusively male, white bastions (just 1% of firefighters are women and 1.5% black or brown) still available. “What guys find once they are in service is that they have joined a very close and elite club, where everyone looks after one another,” says Dick Hodson, a station officer at North Kensington. “There is a rapport among firemen the world over.”

The pay, in absolute terms, is not fantastic; but the overall deal is evidently attractive. Though full-time firefighters work a 42-hour week, much of it at night and at weekends, their four-days-on, four-days-off rota allows them, with permission, to supplement their salaries with a second job. So most firefighters have other incomes and other lives, as builders, lorry drivers, painters and decorators. And, between emergencies, there's often time to get the chores done. Firemen are allowed to do their shopping on the job, for instance, so long as they take their vehicles with them. In how many other occupations do you get to take a shiny new fire engine down to the supermarket to pick up the weekly groceries?

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Organised crime

Evidence on tap

Sep 5th 2002
From The Economist print edition

The police are arguing with the spies over phone-tapping

ONE reason why so little progress is being made against organised crime, according to senior police officers, is that evidence acquired through phone-tapping may not be used in court. Some chief constables, including Sir John Stevens, the Metropolitan Police Commissioner, are conducting a discreet Whitehall lobbying campaign to outflank the security services, MI5 and MI6, who still support the ban.

Police say that the main beneficiaries of the ban are the hundred or so top criminals, known to the National Crime Squad as “core nominals”. They are, in effect, untouchable. Despite years of surveillance, one of Britain's biggest heroin dealers, Curtis Warren, was convicted only after he unwisely moved from Merseyside to the Netherlands, which relied on wiretap evidence to jail him for 12 years.

Britain's exclusion of such evidence sets it apart from virtually every other judicial system in the rich world. Despite this, the ban was confirmed two years ago by the Regulation of Investigatory Powers Act. The prohibition is all the more bizarre because evidence gathered by other—much more intrusive—covert interception techniques, such as bugging a bedroom with a tiny transmitter or using parabolic microphones to eavesdrop on conversations is admissible in court. The courts have also ruled that telephone conversations intercepted by foreign countries and private pager messages sent from abroad can be used in criminal prosecutions. Evidence gathered by police of conversations between criminals using cordless phones is also regarded as admissible.

Michael Levi, professor of criminology at Cardiff University and author of a classified Home Office study on organised crime, says the blanket ban on wiretap evidence goes back to the belief that interception methods must never be revealed because it would alert potential targets. That is why the spooks, whose job is to collect intelligence but not to convict criminals, want the ban to stay. Mr Levi thinks that a more serious worry is the cost of introducing wiretap evidence, which often involves thousands of pages of transcripts, and would, under current rules, have to be disclosed to the defence.

The Association of Chief Police Constables, which used to be sceptical about the value of wiretap evidence, appears to be shifting its stance. The adoption of intelligence-based policing has led to growing frustration among senior police officers. Sir David Phillips, the chief constable of Kent, insists the law is “out of step” with the methods needed to tackle organised crime. But he points out that there would have to be reforms to court procedures, for otherwise wiretap evidence would impose unworkable administrative burdens on the police.

The recent Criminal Justice White Paper paves the way for such reforms. But perhaps a bigger obstacle is the reluctance of ministers to surrender their power to authorise wiretaps. The idea that a politician is better placed than a judge to assess whether an interception warrant is justified is deeply ingrained in Westminster. But John Wadham, director of Liberty, a civil-rights pressure group, points out that the public is unlikely to have confidence in wiretap evidence without a legally-based process of authorisation.

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Government and IT

Ticks in the wrong box

Sep 5th 2002
From The Economist print edition

Another government computer fiasco—this time in vetting teachers

AN ADMINISTRATIVE blunder that kept thousands of teachers out of their classrooms at the start of term has forced the government into a hurried and embarrassing retreat. Education workers will now be allowed contact with their pupils even before completion of their vetting by a new and badly run institution, the Criminal Records Bureau.

There is not much hint of an apology to the public, though. The Home Office, which supervises the screeners, dismissed the problem as a "little bit of a learning curve". Capita, the company that under a public-private partnership actually manages the system, is even less apologetic. Its chief executive, Rod Aldridge, declines to say what he would have done differently, and maintains flatly that "teething problems are inevitable in big projects''. Pray that he never takes over air-traffic control.

The idea was to replace the previous system, based on a sex-offenders' register, with much deeper and quicker investigations. For months the government insisted that all was well, despite growing evidence of a backlog. After the murder of two schoolgirls in Cambridgeshire last month, it tightened the rules, saying that no unvetted staff would be allowed direct contact with pupils.

That kneejerk reaction, coupled with the new outfit's incompetence, created chaos. At Ashcombe school in Dorking, 15 staff members out of 80 by mid-week had not yet received their clearance; the school sent a third of its 1,500 pupils home. Its deputy headmaster, Peter Thompson, says this is far worse for children than the tiny risk of a few days' contact with an unvetted adult. "Prudence of this kind means kids lose out,'' he says.

The government's climbdown leaves some deep questions. Why do government computer projects with private firms go wrong so often and so badly? And who takes the blame when they do?

The government is certainly a tricky client. Its decision earlier in the year to allow paper-based applications, instead of the all-electronic system originally planned, created extra delays. Education ministers clearly did not think through the real risks, costs, and benefits of different levels of vetting. Even the onerous new system has serious holes, for example in screening teachers from overseas. Far more children die in road accidents than at the hands of perverts, but the government shows no interest in, say, tougher speed limits outside schools.

The underlying problem is accountability. Capita's plunging share price and dented reputation is little comfort to parents and pupils. Mr Aldridge says his client is the Home Office, not the public. The Home Office pleads commercial confidentiality in refusing to discuss curious aspects of the contract, such as the seeming absence of penalty clauses. It will all be splendid course material for the new citizenship classes that the government has told schools to introduce this year. Now that the teachers have arrived, that is.

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Bankruptcy in America

The firms that can't stop falling

Sep 5th 2002 | NEW YORK
From The Economist print edition

Chapter 11 of America's bankruptcy code may not be working quite as advertised

AT LAST, a new growth industry in America: corporate bankruptcy. Last year, 95 big, publicly owned companies filed to restructure themselves under Chapter 11 of America's bankruptcy code. Failing telecoms firms, energy traders and airlines should set fresh records this year. This week, UAL, the parent company of United Airlines, hastily hired a new boss as it struggled to stay out of bankruptcy. Of the ten biggest bankruptcies since America introduced the modern version of Chapter 11 in 1978, seven are in the courts now.

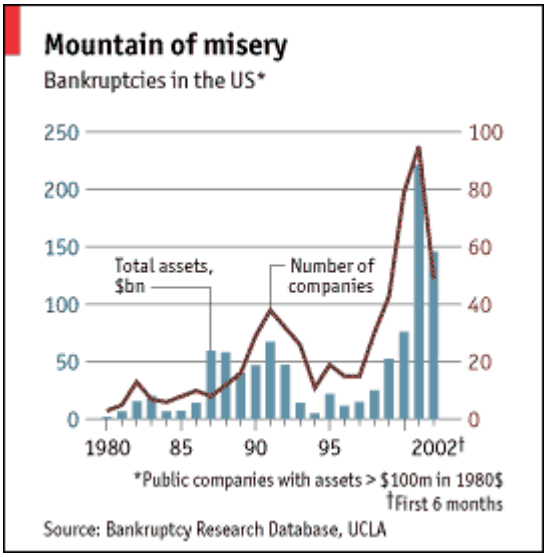
These warm bodies promise years of feasting for the lawyers, accountants, financial advisers, public-relations firms and consultants who specialise in the “restructuring” business. For a typical filing, this industrious little cottage industry can expect to leech fees worth 1-2% of a bankrupt company's assets. By this yardstick, America's bankruptcy industry could book sales of $6 billion this year.

In return for what? Managers of bankrupt firms, the business press and the restructurers themselves all suggest the work is worthy. With the precision of a skilful surgeon, company doctors cut rot from the corporate body, lift the burden of debt from sagging shoulders and discharge their patients, healed and refreshed, into the world again. Jobs are saved, value preserved and the economy reinvigorated in a cycle of destruction and re-creation. Such is Chapter 11's restorative reputation that European bosses, lacking their own version, whine that it hands American firms an unfair trading advantage.

The facts tell a less uplifting story. Lynn LoPucki, a professor at the law school of the University of California, Los Angeles, has built a database of all public companies with assets of over $100m (in 1980 dollars, to adjust for inflation) that have filed for Chapter 11 bankruptcy since 1980. Most firms get second chances: in only 83 out of 569 cases did a restructured company fail to emerge from bankruptcy. Lots of these new companies, however, went on to fail again. Mr LoPucki looked at the fortunes of firms that emerged from bankruptcy between 1991 and 1996. Within five years, 29% had gone out of business, with two-thirds of these liquidated or merged in distress. In each of those five years, on average, the typical firm in Mr LoPucki's sample racked up losses equivalent to 2% of its total assets.

Other researchers tell a similar story. On a broad definition,

says Edith Hotchkiss of Boston College, more than half of Chapter 11 restructurings fail. LTV, a steel company, first went bust in 1986. After spending seven years (and $270m) in the bankruptcy courts, LTV went bust again, and liquidated itself last year. Memorex, an electronics manufacturer, refiled twice, dragging, like the case of *Jarndyce v Jarndyce* in Charles Dickens's "Bleak House", "its dreary length before the court, perennially hopeless". As in *Jarndyce*, the lawyers eventually consumed the estate, and Memorex melted to nothing. Planet Hollywood, the Grand Union Company, Trans World Airlines and Harvard Industries are other celebrated serial failures.



One explanation is that big bankruptcies tend to cluster in certain troubled industries, such as steel, airlines and, most recently, telecommunications and energy trading. The liberal use (or misuse) of Chapter 11 may itself be a cause of overcapacity problems in the steel and airline industries. Industry weaklings seek court protection, shed debts, renegotiate union contracts and emerge as new, low-cost producers. Overall capacity is thus preserved, and the new companies drive down prices, triggering another round of bankruptcies. This was the pattern set by LTV and Continental Airlines, another serial bankrupt.

The liberal use (or misuse) of Chapter 11 may itself be a cause of overcapacity problems

It may also say something depressing about the future of America's telecoms industry, in which more than 50 publicly owned firms (including WorldCom and Global Crossing) are now in Chapter 11. "Some of these companies will emerge from bankruptcy," says Ivan Seidenberg, chief executive of Verizon, a big American telephone company. "They will fail again. They should be liquidated."

Another line of attack, favoured by Mr LoPucki, blames the bankruptcy courts, especially the one in Delaware, whose restructured firms refile for bankruptcy more often than those in other jurisdictions. Before 1990, Delaware had handled just one big bankruptcy case, in 1983. By 1996, it had an 87% share of the national market. Mr LoPucki says that Delaware's judges have attracted new filings by pioneering a laisser-faire attitude to their cases: creditors and debtors are left to sort things out among themselves, despite the judge's duty, under the 1978 bankruptcy act, to confirm that restructuring plans are likely to succeed. The Delaware approach has serious drawbacks: everybody fights for his share, and nobody looks after the interests of the estate as a whole. The good news, says Mr LoPucki, is that recent evidence shows bust Delaware firms are refiling less often, perhaps as the court responds to criticism. The bad news is that refilings are rising elsewhere, especially in New York, as other courts copy Delaware.

The common thread to these problems is management. As the SEC's website candidly points out, the reason why public companies almost always choose Chapter 11 restructuring over Chapter Seven liquidation is that, in Chapter 11, incumbent management keeps a grip on the company. Which is not to say that the old managers never resign. They often do: but more usually at the end of the bankruptcy process than at the beginning. Even if they do go at the beginning, they usually get to appoint new management, which is, in this sense, beholden to the old lot.

Old (or the new, less-than-independent) managers cannot be the right people to make arms' length decisions about how to restructure their companies, or to whom to sell assets, and at what price. Incumbent managers have their own battles to fight, such as preserving their pensions, rewarding their friends and, most pressing recently, staying out of jail. The bankruptcy of Global Crossing is in the hands of John Legere, who ran the firm before it failed. More extraordinary still are events at WorldCom, whose current boss, John Sidgmore, helped to cheerlead the company alongside its former chief executive, Bernie Ebbers, through the late 1990s. With their company in tatters around them, some board members are now waking up to just how bad this smells. The disgrace is that it has taken them so long.

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Bertelsmann

Logging off

Sep 5th 2002 | FRANKFURT
From The Economist print edition

A lot has happened since Thomas Middelhoff left Bertelsmann in July

REINHARD MOHN, who built Bertelsmann from post-war dust into a global media giant, once decreed that his executives should retire at 60. Thus Gunter Thielen had been due to quit the German company's management board last month. The Mohn family, though, is still very much in charge (through both a foundation and its direct stake), and rules can be bent if need be. In late July, when Thomas Middelhoff, then chief executive, disagreed with the Mohns about strategy, he departed. Mr Thielen took over, and instead of tending his garden he has been travelling from one Bertelsmann office to the next, telling employees how things will be on his watch.

They will be different. Mr Middelhoff's four-year tenure was marked by big deals—some brilliant successes, some failures—that doubled Bertelsmann's annual turnover to around *euro*20 billion ($19.8 billion). Those times are over, at least for now. Unveiling results for the first half of 2002 this week, Mr Thielen said that the main objective was to boost operational profitability, to foster “strong organic growth”.

This means ditching businesses that are not paying their way. On September 3rd, Bertelsmann said it would get rid of BOL, an online bookseller, in four European countries. It is keeping a joint venture in Italy and an operation in China. BOL accounts for only 4% of the revenues of DirectGroup, Bertelsmann's book- and music-club division. But it soaks up management time and makes a loss. Except in the Netherlands, where it is the market leader, BOL is not a patch on Amazon, its likeliest buyer. There may also have been sighs of relief at Bertelsmann when an American court this week put a stop to another Middelhoff adventure: the attempt to buy Napster, a former Internet music pirate (see article).

BOL and Napster exemplified Mr Middelhoff's belief in synergies between print, television and music, tied together more often than not by the Internet. This belief gave rise to a more centralised management structure, at odds with Bertelsmann's tradition of allowing its divisions autonomy. Mr Thielen has moved swiftly to dismantle Mr Middelhoff's apparatus. The post of chief operating officer, set up only in February, has been abolished, along with the 15-member “office of the chairman”, and jobs are being cut at head office. This week, the new boss praised the “entrepreneurial and creative freedom” and “decentralised responsibility” that Bertelsmann gives its executives.

The results for the first half, which ended less than a month before Mr Middelhoff left, show both how much he achieved and how much work he bequeathed to Mr Thielen. Encouragingly, the company made *euro*1.6 billion after tax, nearly three times what it managed in the first six months of 2001. Even better, it did this despite falling revenues; the cuts in spending began under Mr Middelhoff.

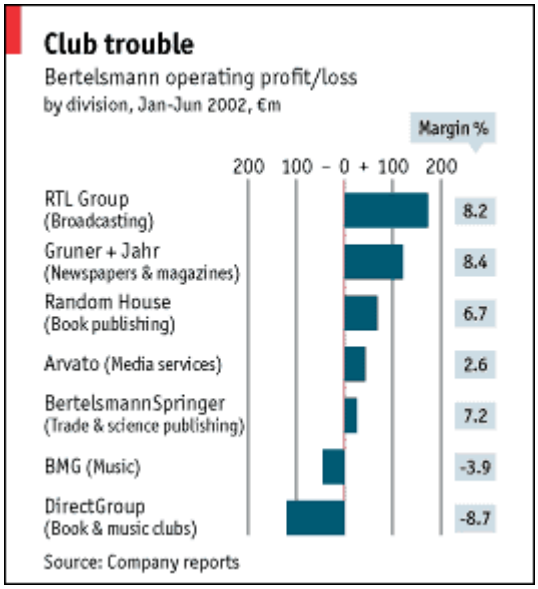
The bottom line was both boosted and blighted by headline-grabbing deals. Bertelsmann scooped *euro*2.8 billion in January from selling its stake in AOL Europe while the Internet bubble was still inflated. Against that, it had to set aside *euro*1 billion for a possible write-down of its investment in Zomba, an American music company. Bertelsmann already has a stake, and later this year will have to buy the rest for *euro*3 billion when Zomba exercises a put option that now looks absurdly generous.

The new focus on operating profitability looks timely. It should help Bertelsmann to contain its debt. Mr Mohn, now 81, instilled in his firm a strong aversion to borrowing. Its net debt is a mere *euro*334m, but it will rise to finance the purchase of Zomba. Bertelsmann hopes to revive a *euro*1 billion bond issue, postponed earlier this year because of market turbulence. It also has unused credit lines.

None of Bertelsmann's seven divisions is hitting the group's medium-term target of a profit margin (defined by earnings

before interest, tax and amortisation) of 10%. Two, indeed, are losing money. Yet most look sprightlier than a year ago. Given the wretched state of the advertising market, it is remarkable that RTL, Europe's biggest private-sector broadcaster, and Gruner + Jahr, the continent's leading magazine publisher, are not far short of the 10% target (see chart).

Mr Middelhoff, however, will cast a long shadow. Control of RTL was won last year at the price of giving 25.1% of Bertelsmann to Groupe Bruxelles Lambert (GBL), a Belgian investment firm, which has the right to float the stake in 2005. That was a revolutionary step, but Mr Middelhoff wanted the family and foundation to float shares too. No, they said, and so he went. However, GBL's stake may be floated anyway. That could be Mr Middelhoff's most enduring bequest.



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Music file-swapping

Napster R.I.P.

Sep 5th 2002
From The Economist print edition

The ex-king of illegal file-swapping expires, but its clones are thriving

AP

Out but not down

FOR once, reports of its death do not seem to be exaggerated. This week, Napster, the pioneer of illegal music downloading on the Internet, finally prepared for liquidation after a court blocked the sale of its assets to Bertelsmann. The deal, ruled the judge, was not in the best interests of Napster's creditors. Previous reports of the file-swapping service's demise have proved premature: Bertelsmann, which owns BMG, a record label, kept backing efforts to relaunch Napster as a legitimate business. But now that Bertelsmann has decided to pare its online businesses, this time looks to be for real. This week, Napster wiped clean its website and replaced it with the words “Napster was here”, and a clickthrough to a tombstone marked “Ded kitty”.

To the exasperation of the music industry, however, Napster's death will not end illegal file-sharing. Even as use of Napster has shrivelled from a peak in February 2001, Napster lookalikes have sprung up. In America, the number of unique users of KaZaA, a Napster clone, shot up by 1,491% in the 12 months to June, according to comScore Media Metrix, a research group. In June, the number of users in America of KaZaA, Morpheus and Audiogalaxy, all file-sharing services, reached 14.4m, more than the 13.6m using Napster at its peak.

The record industry is struggling to regain control. It has stepped up efforts to use the courts to shut down the Napsterlikes. And it has tried to wean music fans off free sites by backing fee-paying operations. Yet the four main subscription services—Listen.com's Rhapsody, pressplay, MusicNet and FullAudio—limit what users can do. For the most part, they rent tracks for the duration of the subscription rather than sell them; and they forbid, or limit, the “burning” of songs on to CDs. So far, only an estimated 100,000 people have signed up to such services.

Nobody doubts that the music business is in trouble. Last year, global sales of CDs were down by 5% from 2000, the first fall since the format was launched. Yet this also reflects a shift in the way people spend their entertainment dollars. DVDs have been enjoying the novelty boom that CDs did in the 1990s. The recent surge in sales of films on DVD, along with those of video-games, may be as much behind the record industry's woes as the Napster clones.

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Japanese corporate scandals

A critical mass of disgust?

Sep 5th 2002 | TOKYO
From The Economist print edition

Heads are rolling, but corporate governance will probably not get any better

AP

Minami didn't see it coming

WILL the initial burst of outrage start a chain reaction, or will it fizzle out ineffectually, as it has after so many other Japanese business scandals? The latest company to be caught deceiving the public is Tokyo Electric Power (TEPCO), Japan's largest utility, which turns out to have filed at least 29 falsified reports to nuclear-safety regulators since the 1980s. The reports failed to list safety problems at eight different nuclear reactors, some of which have cracks in the steel shrouds that surround the reactor cores and ensure their safety.

On September 2nd, TEPCO announced the ritual resignations that almost invariably follow such scandals. The president, Nobuya Minami, and four other executives will step down. Before he leaves in mid-October, however, Mr Minami will oversee an internal probe, which is expected to find that a secretive corporate culture and a bureaucratic aversion to inconvenience—in other words, standard Japanese business practices—are among the chief culprits.

With luck, somebody will take a close look at the regulators as well. Although they were tipped off about the false reports more than two years ago, they have only just got round to informing the public. That delay seems especially inexcusable given Japan's shaky nuclear-safety record, and the concern it has generated among many citizens. Just three years ago, sloppy work methods led to a fission chain-reaction at a uranium-processing plant in Tokaimura, 120km (75 miles) north-east of Tokyo. The accident killed two workers and exposed hundreds of local residents to radiation.

In Japan, however, businessmen and bureaucrats often respond to such public worries by engaging in more secrecy rather than less. Occasionally, this leads to an even bigger scandal, and thus more hand-wringing. At least some journalists, regulators and whistleblowers seem to be getting better at turning the spotlight on misdeeds: a slew of scandals involving bribery, food safety and other transgressions have been paraded before the public so far this year. On September 4th, Mitsui, Japan's largest trading house, joined the roll of shame: it announced the resignations of four top executives, including its president, over allegations that the company had paid bribes to win foreign power contracts.

This counts as progress, but Japan's system still does a terrible job of spotting and eradicating problems in the early stages. That Hiroshi Araki, TEPCO's chairman, heads the committee on corporate behaviour at Japan's biggest business federation neatly illustrates this shortcoming. Having failed as the firm's chairman, his only contribution to better governance is to resign along with its other top executives.

It seems unlikely that either businesses or regulators will learn the right lessons from TEPCO's troubles. Both its new management and the government may try a little harder to soothe public anxieties, since its plants are involved in the government's plans to introduce a controversial new form of nuclear fuel. But as energy users have less choice than consumers of beef or dairy products, both the subject of recent scandals, the pressure to reassure the public through meaningful reforms may prove weaker than it has for food producers. Alas, the fallout from this week's scandal may not scatter far enough.

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Chief executives

The curse of charisma

Sep 5th 2002
From The Economist print edition

Superstardom is good for bosses but bad for companies

LOOK round the new faces in the boardroom these days: few have been selected for glamour. They are folks such as Glenn Tilton, brought in this week from ChevronTexaco to rescue United Airlines and described as “extremely hard-working”; Edward Breen, a safe pair of hands from Motorola who is trying to unscramble the mess left by Dennis Kozlowski at Tyco; or Sir Nick Scheele, chief operating officer at Ford and a solid contrast to the excessively colourful Jacques Nasser. Safe is in, charisma is out.

About time too. A flurry of research casts doubt on the value of charismatic leadership. In the latest issue of the *Harvard Business Review*, Rakesh Khurana of Harvard Business School argues that firms appoint charismatic bosses because they tend to believe—despite a notable lack of conclusive evidence—that a chief executive can have an almost mystical impact on a company's performance. In fact, he says, most studies suggest that 10-20% of performance depends on the economic climate and 30-45% on the state of the industry. (That still leaves 35-60%, however.)

Belief in the clout of bosses also encourages companies to dump them when things go badly. So tenure at the top grows ever briefer. And when the boss goes, companies frequently hire a charismatic outsider to save them, often somebody from a high-profile stable such as Citigroup (James Dimon at Bank One) or General Electric (John Trani at Stanley Works).

Dismissal now accounts for 37% of all departures of chief executives. Firms that sack the boss are roughly three times as likely as others to hire an outsider as a replacement. However, argues Margarethe Wiersema of the University of California at Irvine, in a paper presented at last month's annual meeting of the Academy of Management, replacement chief executives are no better than their predecessors at improving performance. The newcomer makes little difference to either profits or the share price.

Only in one respect does charisma demonstrably pay. Another Academy of Management paper, by Henry Tosi of the University of Florida, assessed the charisma of the chief executives of 59 large American firms, and duly found no connection with corporate performance. It did, however, find that charismatic bosses receive higher total pay than their humbler peers, after discounting both company size and performance. Charisma, it seems, is as good for the boss as it is bad for shareholders.

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An Asian high-frills airline

Rolling out the red carpet

Sep 5th 2002 | SUKHOTHAI
From The Economist print edition

Bangkok Airways finds profit in pampering passengers

IN SOUTH-EAST ASIA, as in other parts of the world, low-cost airlines are snatching business away from established carriers. But the region's most successful small airline is just the opposite: the high-frills, high-price Bangkok Airways. Despite charging more on the routes where it flies head-to-head with Thai Airways, Thailand's national carrier, its passenger numbers almost quadrupled in the eight years to 2001. Profits are rising too: $2.7m last year, one-third higher than in 2000.

The trick is to treat passengers royally. The departure lounge at Sukhothai, a small temple town that is one of Bangkok Airways' hubs, is an ornate open-air pavilion. Travellers can help themselves to drinks and snacks, read magazines, surf the web, visit a ceramics museum or simply gaze out at the topiary and lily-ponds that adorn the immaculate gardens—all free of charge. This extravagance, explains Prasert Prasarttong-Osoth, the airline's founder and chief executive, is designed to please foreign tourists, who make up over 90% of Bangkok Airways' customers. Locals are not a promising market, yet: income in most Asian countries is not high enough to sustain the sort of mass traffic that low-cost airlines cater to in Europe and America. That makes foreign tourists the region's big spenders.

Most Asian airlines design their route-maps around bulk traffic between big cities. Bangkok Airways, by contrast, uses small planes to take tourists exactly where they want to go. It has devised a circular route, for example, to usher sightseers through four big attractions in Thailand, Laos, Vietnam and Cambodia, without stopping in a single capital city. In tourist destinations where there were no airports, such as Sukhothai or Ko Samui, a Thai beach resort, the airline has built one itself.

Bangkok Airways' strategy is not without risks. Its exotic route-map puts it at the mercy of several capricious regimes. For some time now, for example, the launch of routes to Mandalay and Pagan in military-ruled Myanmar has been inexplicably delayed. And applying its business model to more distant destinations might prove difficult. Tourists seem happy to splash out on short hops, but they may balk at the five-hour flight to Xian, in China—the airline's newest route. Still, in Asia's relatively small travel market, Bangkok Airways' model looks a better bet than piling them high and shipping them cheap.

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Black empowerment in South Africa

Shades of grey

Sep 5th 2002 | JOHANNESBURG
From The Economist print edition

The government wants big industries, such as mining and finance, to do more to foster black ownership of capital

THE South African government, proud host of this week's Johannesburg summit, was somewhat embarrassed when Robert Mugabe used the occasion to justify his ruthless expropriation of white-owned farms in Zimbabwe. Yet Mr Mugabe's rhetoric has a resonance at home: for the government has long wanted the country's black majority to have a far greater share of capital and top jobs, especially in such high-profile industries as mining and banking. The phrase it favours for this policy is “empowerment”.

Until now, the government has been cautious about using its clout to push change too fast. Although more local companies have explicit empowerment policies than have anti-AIDS policies, the share of capital held by black South Africans remains pitifully small. According to BusinessMap, a think-tank, the black-controlled share of the equity quoted on the Johannesburg Stock Exchange has actually dropped to barely 2%, thanks to poor performance and delistings. Although the picture among small businesses is more encouraging, the government is worried that big industries are not changing enough.

It now seems ready to force the pace. Since August, officials from the minerals ministry have been quietly negotiating with Anglo American, De Beers and other big mining companies, over details of a voluntary mining charter that would set out a timetable for moving some ownership into black hands. The trade and industry minister, Alec Erwin, says a new policy could be unveiled before October. As these talks were under way, Anglo American cannily announced on August 30th that it had sold all but 10% of its coal assets in KwaZulu-Natal province to a black-controlled company, Leeuw Mining.

The government favours a mining charter with specific targets for black ownership, to be met by an agreed date, probably a decade after signing. It has learnt from the first effort to draw up a charter. On September 6th, representatives from the country's liquid-fuels industry will report to parliament on progress made since an empowerment charter was signed by a dozen companies and the government in November 2000. It was agreed that, within ten years, non-whites should own a quarter of “all facets” of the industry.

This is proving relatively easy to achieve, at least in downstream sales of petrol, where small retailers have long been encouraged and are often black-owned. Larger fuel companies, such as Sasol, which controls 41% of the country's oil production, have created black-owned retailing offshoots, such as Exel, and have outsourced transport to companies dominated by blacks.

The fuel industry has become a model for others to study. That explains why the mining houses, investors and currency traders were disturbed by a draft government paper circulated in August that suggested a target of 51% for black ownership in the mining industry. It was quickly withdrawn, but mining shares and the rand fared poorly for several weeks.

The government wants owners to be compensated for any capital transferred, but it has failed to make clear who would pay for half of South Africa's mining industry, which is worth nearly $60 billion. That suggests a lack of preparation—or a government that might be happy to see white-run companies emasculated, rather than have new black enterprises created alongside the giants. Any hint that capital might be expropriated is fiercely opposed by the industry.

The government wants owners to be compensated for any capital transferred, but it has failed to make clear who would pay

Even investors who have come to accept moderate black empowerment as a fact of life see the process as a tax on business. It can be managed, they say,

as long as it is limited and predictable. The government must be wary of damaging the companies it is trying to transform, argues Graham Mackay, boss of SABMiller, a brewing giant. “Some governments assume that big business will always be there, whatever is thrown at it,” he says. “But business can be a fragile flower.”

Business leaders welcomed parts of the broader approach to empowerment set out by Cyril Ramaphosa, a black tycoon (and former union leader) whose commission on the subject reported to the government last year. It recommended some state encouragement to speed change in big business and suggested that a “one-quarter” ownership rule was reasonable for most industries. It proposed some other targets: within a decade, 30% of productive land should be in black hands; at least 40% of directors of listed firms should be black; and at least 50% of the loans on the books of national development-finance institutions should be to black-owned companies. But the commission also emphasised that economic growth is needed to smooth transition, and that business and government should agree on new measures.

Mr Erwin says that companies and the government agree that a legal approach to force business to shift capital is best avoided, and that different types of business need different sorts of persuasion. While mining remains white-dominated and prefers to offload peripheral businesses than to see change at its core, consumer-oriented companies, such as retailers and brewers, have long had a lot of black managers in senior positions. The big problem so far, says BusinessMap's Reg Rumney, has been that blacks tried to form conglomerates, just when conglomerates went out of favour.

The main barrier to further black empowerment is the question of who ultimately pays for change. Getting even a small share of the 1.5 trillion rand ($148 billion) Johannesburg stockmarket into black hands would take a lot of money. Past efforts to create special loans for entrepreneurs who want to buy businesses have fared badly, and commercial banks are not keen to be involved. Government procurement rules favour black-controlled firms in media, transport and retailing, but annual state spending—of some 100 billion rand—cannot all be diverted to black firms. Privatisation is another avenue being explored: the second national telecoms operator must have a black-owned partner that controls 19% of the new operation. But such rules tend to put off foreign investors—and the government is being slow to privatise anyway.

The government wants change to come soon, and it will keep looking for new ways to help black South Africans. Expect its charters for the mining and other industries in the next few months to reflect both that sense of urgency in hitting targets, and also a good deal of frustration about just how to go about it.

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Face value

Globalisation's new cheerleader

Sep 5th 2002
From The Economist print edition

Can the World Trade Organisation's new boss lead the world towards freer trade?

Get article background

LISTEN to the anti-globalisation protesters and you might conclude that Supachai Panitchpakdi, who succeeded Mike Moore at the helm of the World Trade Organisation (WTO) this week, has just become an extremely powerful man. After all, according to its critics, the WTO is an unbridled, secretive outfit that skews trade rules for the benefit of big business.

Unfortunately for Mr Supachai, reality is more mundane. The WTO is a fractious club of 144 member countries that acts by consensus. Any single country, however small, can block proceedings. The WTO's top man has one of the lowest salaries among international bureaucrats. And, compared with, say, the boss of the International Monetary Fund, he also has remarkably little power. He cannot even formally set the WTO's agenda. The job of heading the organisation is more like managing a bickering professional association than running a global government.

That said, the expectations of the job are high—for the WTO's boss is the single most visible advocate for freer trade. His is the best pulpit from which to goad rich and poor countries alike into tearing down trade barriers. Less visible, but equally important, the WTO's boss has a pivotal behind-the-scenes role in ensuring that global trade negotiations succeed. Though he cannot force any compromise, a politically astute WTO director-general is in a strong position to squeeze deals out of recalcitrant negotiators.

For Mr Supachai, the task is to prod countries into concluding the global round of trade talks launched at Doha last November by the deadline of December 2004. Although trade talks notoriously drag on beyond their deadlines, Mr Supachai has an extra incentive to keep to time. His own term in office is a mere three years. That is because the WTO's members, unable to agree on a new boss in 1999, split the job between Mr Moore and Mr Supachai.

Finishing the Doha agenda in a little over two years will not be easy. Not only are the negotiations broad, ranging from freeing up trade in services to exploring international rules on competition policy, but they also include some extremely thorny issues—in particular, trade protection in agriculture. Revising global trade rules, including America's favourite weapon of anti-dumping duties, is also on the table. The WTO's members have promised to focus the Doha round on poor countries, many of which felt short-changed by the previous Uruguay round.

Although rich countries know the Doha round will succeed only if poor countries see enough benefits, particularly in agriculture and textiles, the real haggling and the big political compromises on which a successful round depends still lie ahead. America's decisions to impose steel tariffs and pass a subsidy-enhancing farm bill have hardly helped the round's chances of success. At the same time, too many poor countries remain unwilling to reduce their own trade barriers, which are often far higher than those in rich countries.

The poor world's man

Can Mr Supachai help to broker a Doha deal? His biggest advantage is also his biggest handicap: he comes from the developing world. As a former deputy prime minister of Thailand, he is the first poor-

country national to head a global economic institution. While waiting to take over at the WTO, he has not shied away from outspoken comments about the need to shift more of the benefits of trade to the poor world. Many poor countries see Mr Supachai as their man, giving him a powerful position from which to proselytise about the benefits of signing up to Doha in third-world capitals.

Unfortunately, goodwill in poor countries is matched by suspicion in the rich world. Mr Supachai's public comments before taking office have led Europeans and Americans to fret that he will take sides. Europeans are worried that he cares too much about freer farm trade (which Europeans find hard to swallow) and not enough about broader issues, such as rules on competition and investment, that are dear to European hearts.

Rich countries also worry that Mr Supachai sees the WTO too narrowly as a place to assist poor countries, and forgets that the bulk of global trade is still between rich countries. Last week's WTO decision to allow the European Union to impose up to $4 billion of tariffs against America as recompense for a foreign-sales tax break which the WTO has deemed an illegal subsidy is a reminder that most of the biggest WTO decisions have nothing to do with poor countries. The fear is that, if Mr Supachai is perceived mainly as an advocate of the poor, he will be ignored by the big players.

So far, the signs are that the WTO's new boss understands this diplomatic minefield. His public statements have been measured, and he has made a point of stressing his impartiality. His ideas for WTO reform seem sensible. They include improving a cumbersome decision-making process and encouraging less litigious dispute settlement. More telling, although critics question his management ability, his appointments have been deft: for instance, Stuart Harbinson, Hong Kong's man at the WTO, and perhaps the most widely respected trade negotiator at its Geneva headquarters, has been picked as a top adviser.

Even if he can quickly quell rich-country suspicions, the real test of Mr Supachai's political savvy lies ahead. How effectively can he persuade trade negotiators to reach a compromise? At the 11th hour of trade talks, this often comes down to personal chemistry. Mr Moore played the eternally affable, backslapping politician, who smoothed feathers and brokered deals in a haze of cigarette smoke. Nobody expects that approach from the bookish Mr Supachai. His style is formal, his manner reserved. All rather Asian, in fact. The doubt is whether the Supachai style will be effective.

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Wall Street a year on

Annus horribilis

Sep 5th 2002 | NEW YORK
From The Economist print edition

Assessing the impact of the September 11th attacks

Reuters

THE past year has been the worst that most people on Wall Street can remember. All the main share indices have fallen steeply; an August rally has fizzled as share prices this week slipped back again towards their late-July lows. Investment-banking deals have evaporated. Initial public offerings and mergers, the most lucrative businesses for investment banks, are these days practically unheard of. Job losses have been both large and persistent.

The attacks on September 11th account for some of these woes. The New York Federal Reserve reckons that two-thirds of the 30,000 job losses in financial services between last September and February were caused by the attacks. Yet equity markets had cracked long before, and firms had already begun laying off staff after nearly two decades of wild expansion. Besides, it is the fall of Enron—irregularities at which were first uncovered in October—that may have greater consequences for the financial world in the long run. It led, after all, to the collapse of an auditor, Andersen; to far greater questioning of the relationship of companies and their bankers to shareholders and clients; and to regulatory scrutiny and new legislation, of which the Sarbanes-Oxley act, passed in July, is unlikely to be the last example.

Even so, the attacks on the World Trade Centre have certainly altered New York's financial landscape. About four-fifths of lower Manhattan's office space was let to financial-services firms. More than half of these have now shifted elsewhere, usually to smaller spaces. Mid-town Manhattan has been the greatest beneficiary, but according to the New York City Partnership, a business group, 19,000 of the 50,000 financial-services workers displaced by the attacks have moved out of the city altogether. Morgan Stanley, for instance, has bought Texaco's old office in White Plains and will move many employees there. Goldman Sachs is building an office tower for its equities division across the Hudson, in New Jersey. And the New York Stock Exchange has threatened to build a second facility in the suburbs as well.

This last move prompted New York's mayor, Michael Bloomberg, to claim that it was just what the terrorists wanted. As it is, heavy security around the exchange on Wall Street has pretty much cut it off from small restaurants and businesses in lower Manhattan, which are no longer allowed to deliver. It is tempting to conclude that even if the attacks did not kill the financial markets, they have certainly killed the Wall Street that has dominated American finance since the country's birth.

And yet. What tourists who flood the area around Ground Zero now see, beyond the garish souvenirs and the walls plastered with memorials, is a place galvanised into action like never before. The site of the World Trade Centre itself has been cleaned of several million tons of debris. Surrounding towers that were badly damaged have been fixed up. In quick succession, Merrill Lynch, American Express and the Bank of New York have all moved back into glistening buildings.

Just to the north of the World Trade Centre, a former headquarters of AT&T and of New York Telephone, now called Verizon, had served as one of the world's biggest switching centres. In the attacks, the building was hit from two sides by falling girders, and then swept by fire and floods. There was talk of

knocking it down. But, says Verizon's chief executive, Ivan Seidenberg, it was important for the employees to see the building still standing. The outside was restored, and new switching equipment was installed inside. In the months after the attacks, 3,500 staff worked to repair lower Manhattan's phones—at a cost amounting to $1.2 billion—and over 300 are still working now. More cable lies beneath Manhattan than ever before, but with more purported security.

Before September 11th only one of New York's exchanges, the New York Board of Trade (NYBOT) had a back-up trading facility. It was also the lone exchange based in the World Trade Centre, and four of its members were killed. The other 1,600 members and exchange employees made their way across the East River to an old industrial area of Queens. There, after the World Trade Centre was bombed in 1993, the exchange had leased a small room and shipped over clunky old monitors, grumbling all the while about the $300,000 in annual upkeep.

Right after the attacks, conditions at the site were barely tolerable, with too few phones and too little space. Some 13 trading pits were cut to two, with trading in the exchange's five commodities—coffee, sugar, cotton, orange juice and cocoa—each taking brief shifts. Currency and index trading were done in a corner.

Quickly, though, conditions improved. The army flew in a giant telephone-switching system. Food stands that were once outside the NYBOT in Manhattan moved to be near their customers. Traders created novel new systems, such as a circular price-display board of 16 flat-panel computer screens, modelled on the scoreboard at Madison Square Garden. Volumes leapt. Most striking, however, was the sudden outbreak of co-operation between the NYBOT and the New York Mercantile Exchange (NYMEX), an exchange trading energy and precious metals that once shared space with it in the World Trade Centre. The NYMEX had moved in the mid-1990s to a new facility, after which petty turf battles frustrated years of talk about a joint project. Now the NYBOT is on the verge of announcing that it is to move in with NYMEX again. That could not have happened without September 11th.

The attacks, then, explain a changed financial geography in New York. They may also have quickened the receding tide from all the financial speculation of the late 1990s. The ebb has laid bare a great deal of trickery and fraud—at Enron, Andersen, WorldCom and several investment banks—but that would have happened even without the impetus of September 11th. It is down not so much to the attacks as to the whole raft of proposed changes in accounting practices, corporate governance and the handling of investment banks' conflicts of interest that the financial world will genuinely never be the same again.

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Disaster recovery

Preparing for the next one

Sep 5th 2002
From The Economist print edition

Financial centres brace themselves, hypothetically

EVEN as lower Manhattan was still smoking, regulators were examining how the financial industry had held up, and how it might be strengthened against the next disaster. Thanks to well-capitalised banks, and to dealers curbing their killer instincts, the threat to financial stability proved minimal. A year on, with Wall Street firms under more pressure, another disaster might not rouse the same spirit of co-operation. It is a point relegated to a footnote in proposals released by American regulators last week on how to prepare for another disruption. “Under adverse market conditions or in the event of credit concerns about institutions,” it runs, “liquidity dislocations of the type experienced immediately after September 11th could be seriously compounded.”

September 11th was not what banks and regulators call a credit event. The next disaster, whatever it is, could be. Huge markets, such as that for foreign exchange or American Treasury bonds, can become gridlocked if there is a fear that somebody, somewhere, is insolvent.

Financial regulators, especially in New York and London, are trying to keep up firms' enthusiasm for their plans for disaster recovery and business continuity. British regulators have set up a website for this purpose. The Financial Services Authority last month put its staff through a business-continuity exercise at a secret back-up site.

American regulators are inviting comments over the next six weeks on their suggestions. The aim is to maintain access to real-time information and communication with other market participants—that is, from one back-up site to another. Regulators themselves, and markets, should be able to suffer a major blow and be in business again in less than four hours. Firms that matter to the financial system—15-20 big banks and 5-10 securities houses—should give priority to those markets in which they are the biggest participants, resuming business within a day.

Now banks include independent communications and information-technology systems, a weak link on September 11th, in their survival plans—more evidence that finance is all about information. The Financial Stability Forum of the G10 industrial countries, based in Basel, has drawn up an emergency contact list so that the most important financial entities and their regulators can keep links through thick and thin.

Well and good. But what form will the next disaster take? Even a dozen back-up sites might not be enough to sidestep a smart cyber-attack. American regulators encourage continual testing of firms' survival plans against all imaginable events. They recommend industrywide wargames. Yet battle-weariness is setting in. Devising suitable simulations, says an American regulator, involves giving up “serial weekends”. Besides, he says, their value is uncertain. With financial firms everywhere cutting costs, spending on disasters that may not happen could suffer cutbacks too.

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Fred Alger Management

From the ashes

Sep 5th 2002 | NEW YORK
From The Economist print edition

Mauled on September 11th, an investment firm bounces back

FOR the decade of the 1990s, Fred Alger Management had the best record of any fund-management firm in America. Gains on its Spectra mutual fund averaged 29% a year, 11 percentage points better than the broad-based S&P 500 index. The firm hunts for companies with the potential for unusually strong growth, and financial markets in those days were unusually receptive to the approach. In 2000 Alger's performance was hit hard, along with other so-called growth investors. Then, a year ago, the firm itself was all but destroyed. Alger's headquarters were on the 93rd floor of the World Trade Centre's north tower. All 35 people at work that morning died, including David Alger, head of the firm since 1995, when his brother Fred retired, and most of the firm's team of stock-pickers.

Rather than close the business, however, the decision was made to rebuild around the living. One, a portfolio manager named Dan Chung, who is now Alger's chief investment officer, had been with Tyco International on the morning of September 11th; its chief executive, Dennis Kozlowski, was attempting to reassure investors about his conglomerate. Another employee was dropping off a child at school. A third was on the way to the lift when the planes hit.

Reconstruction started immediately, and hidden strengths were found. Prosperity and the technological advances of the 1990s meant that the firm had built robust systems. A back-up facility had been established 50 miles away, in central New Jersey, and when Mr Chung arrived on September 13th to see what was left of the business, every record and every research note was found meticulously preserved. Fred Alger came out of retirement, and when the markets reopened on September 17th, he and Mr Chung were large buyers of shares in Wall Street brokerages, whose valuations were plunging. Profits from those investments improved the performance of an otherwise poor year.

Next came the recruiting of new staff. People on Wall Street pride themselves on not being sentimental, yet Alger had deep ties. Unlike most investment firms, it had never used the research of Wall Street banks. Instead, it typically hired university graduates with a background in areas unrelated to finance, and then put them through a gruelling training in research. Over the years many left to hold top jobs at other asset-management companies. After September 11th calls went out, and alumni came back from Prudential Securities, Seligman, Oppenheimer and others. By January the investment-management staff were up to 25, one more than before. A new headquarters was made out of the well-appointed (second-floor) space left by a failed dotcom, on lower Fifth Avenue.

Outside Alger's control were the markets themselves. The firm's distaste for Wall Street's share touts meant that it had avoided investing in Enron and WorldCom. Even so, it has not been spared. Assets under management have shrunk by 23%, to $10 billion, mainly because of the stockmarket's fall, but also because some clients pulled their money out.

Alger is optimistic as usual. It reasons that, on any long-term view, America will continue to grow. It is putting money into businesses that are increasing their market share, including casinos (Mirage), cruise lines (Carnival) and even trucking (J.B. Hunt). Even in difficult times, says Mr Chung, “good companies create value”. He seems to be describing his hopes for Alger as much as for its investments.

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Terrorism insurance

Look, no umbrella

Sep 5th 2002 | NEW YORK
From The Economist print edition

Is a federal backstop for terrorist insurance necessary?

EPA

This calls for Uncle Sam

A GOLDEN rule of insurance is that you do not underwrite a risk that cannot be quantified. Last year's terrorist attacks resulted in the biggest insured losses ever, worse than any scenario in the risk models that insurers use to determine possible maximum losses. Warren Buffett, head of an insurance-dominated conglomerate, which bore about $2.4 billion of the roughly $40 billion of insured losses caused by the attacks, has told his shareholders that terrorist risk has become impossible to quantify. It cannot be insured any more, he says, unless the government acts as insurer of last resort.

Lawmakers in Washington, DC, have been at loggerheads on this issue for nearly a year. Last November the House of Representatives passed a draft bill to make the government provide loans for up to 90% of the losses caused by terrorism, for a three-year period. In June the Senate passed a more generous two-year scheme, and the two chambers were still battling when they went off on summer holiday. They may yet reach a compromise between the end of their break this week and September 11th. But American insurers, lobbying for a federal backstop, are not betting on it.

Before the terrorist attacks last September, insurance of terrorist risk was just part of general property and casualty policies, for no extra charge. Now insurers are excluding terrorist risk from their property and casualty cover, and reinsurers are refusing to insure primary insurers against terrorism. Such exclusions are allowed in all states except New York, California, Texas, Florida and Georgia, for all policies except those covering worker's compensation, and fire damage. A limited market for terrorism insurance on its own has developed in the past year—Lloyd's, AIG, Ace and others write separate policies—but such cover is expensive, and not available to all.

About half of American businesses have no terrorism insurance, a shortfall which is a threat to economic growth, according to a report by Congress's Joint Economic Committee, published in May. The property industry claims that projects worth an estimated $8 billion have been abandoned or delayed because they could get no insurance.

Unfortunately, differences in the two houses' proposed bills remain wide. The Senate's plan calls for the government to cover 80% of losses up to $10 billion resulting from a terrorist attack, after insurers have paid a deductible based on their market share. For losses over $10 billion the government will cover 90%. The House plan is far less generous. It would provide loans to the industry to cover 90% of terrorism losses over $1 billion as well as loans to individual insurers if their losses exceed $100m and one-tenth of their premiums and surplus capital.

However, the main bone of contention between the chambers is the proposed limits on lawsuits, says Robert Hartwig at the Insurance Information Institute. The House intends to introduce measures to curb predatory lawsuits. The Senate's Democrats oppose such a curb, under pressure from the Association of Trial Lawyers, a big donor to their party.

Why all the fuss, when, according to some, the government could stay out of it altogether? Having no

federal backstop did the market a lot of good, says Kenneth Froot at Harvard Business School. A new federal programme might only create more red tape. In the private sector, new methods of risk modelling are being developed, such as the Terrorism Loss Estimation Model, released this week by AIR Worldwide, an insurance advisory firm. As it is, the government has an implicit role in terrorism insurance, when the chips are down. In the event of another big outrage, it would presumably step in, as it did briefly after last year's attacks.

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Terrorist finance

Still flush

Sep 5th 2002
From The Economist print edition

Islamic charities, commodities and hawala are the key to al-Qaeda's money

IN SPITE of America's efforts to starve it of money, al-Qaeda probably still has plenty of cash. The war on terrorists' funds was launched with the dramatic freezing of the assets of dozens of individuals and organisations: over $110m in all. But the initiative has faltered, according to a UN report published this week. Perhaps the blacklists gave the impression of vigorous action against terrorist financing. Yet they were only ever a small part of the task. The next and harder stage relies on the actions of countries other than America, including many in the Middle East.

Al-Qaeda was said this week to have shipped gold from Pakistan to Sudan. Investigators have already been exploring how terrorists use commodities and informal, trust-based ways to move money, known as *hawala*. They are also trying to tackle the problem of Islamic charities. The biggest are funded by Saudi Arabia's royal family. The vast majority legitimately help the Muslim poor, but some certainly finance al-Qaeda.

America has blacklisted a handful, including, jointly with Saudi Arabia, the Bosnian and Somali branches of the Saudi Arabia-based al-Haramain Islamic Foundation. The foundation recently persuaded the Bosnian government to lift the freeze on its assets, however. Meanwhile, Matthew Levitt of the Washington Institute for Near East Policy says, American officials despair that Saudi Arabia will ever admit that the domestic headquarters of any Saudi charities (as opposed to their foreign arms) might have colluded in the misuse of funds.

The kingdom has taken some preventative steps, such as ordering charities to tell the foreign ministry about new overseas projects. Ideally, says a report prepared for an upcoming meeting on charities and terrorism under the auspices of the Financial Action Task Force, the world's main anti-money-laundering body, charities should document employees, projects and possibly donors, as well as running field audits to ensure that money has not gone astray.

A lawsuit filed on behalf of the families of people who died on September 11th is less tactful. It accuses eight Islamic charities, as well as members of the house of Saud, of financing al-Qaeda. Although the American administration is unlikely to co-operate publicly with the lawsuit, says a senior official, it is taking its evidence seriously and hopes to benefit from any fresh leads that the families' legal team turns up.

That al-Qaeda is making more use of gold and *hawala* to move its money about is, in one sense, a sign of success: vigilance on the part of mainstream financial institutions has forced it to look for alternatives. But tracking terrorists' use of commodities—even the assets of three Yemeni honey concerns have been frozen—will take time, simply because the idea of monitoring trade for this reason is new to countries in the Middle East and elsewhere. The task-force's annual report calls on the United Arab Emirates to require gold and jewellery dealers to identify and keep records on their customers. Dubai especially is described privately by American officials as a centre for trade-based money-laundering.

If countries refuse to take the steps that America and its allies demand, what then? When the task-force came out with its recommendations against terrorist financing last year, it threatened to name-and-shame offending countries, from this June onwards. Both America and Britain, worried about relations with other countries, have since backed away from this. As the war on terrorist money becomes more political, it will be conducted increasingly behind the scenes (there are secret lists of al-Qaeda backers, for instance, as well as public ones). It will in future become even harder to tell if the effort to cut off terrorist finances is having any effect.

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Initial public offerings

Spun gold

Sep 5th 2002 | NEW YORK
From The Economist print edition

Did Wall Street firms bribe bosses with shares?

IT IS fashionable nowadays to criticise the Securities and Exchange Commission (SEC) under its current chairman, Harvey Pitt, and to praise its record under his predecessor, Arthur Levitt. Yet Wall Street's latest scandal, over allocations to corporate bosses of shares in hot initial public offerings (IPOs), allegedly in exchange for investment-banking business, shows how Mr Levitt's SEC missed a big trick.

Back in 1997, reports that Robertson Stephens, a Silicon Valley investment bank, was “spinning” IPO shares to executives who rewarded them with banking mandates prompted an SEC probe into the practice. The probe was soon abandoned. The practice boomed, becoming one of the more lucrative ways in which executives combined with Wall Street to abuse ordinary shareholders.

On August 30th Citigroup told congressional investigators that in 1997-2000 it had allocated IPO shares to Bernie Ebbers that had generated profits of $11m for the former boss of WorldCom, a telecoms firm which was a big Citigroup client, and is now bust thanks to fraud. Other WorldCom executives had also benefited. Citi claims that these allocations were not in return for investment-banking work; rather, they were a reward to the best customers of its private-banking arm. Underwriters and issuing firms are free to allocate shares however they wish, Citi notes—while in the same breath promising to change its allocation procedures.

Citigroup has yet to show that it was as generous to other private-banking clients who could not offer potential investment-banking business in return. Its “host of benign” explanations for why some shares were allocated retrospectively, giving executives a risk-free gain, seems thin. So does its claim that Jack Grubman, until last month the bank's top telecoms analyst, played no part in allocating shares to executives. Among the documents that Citigroup sent to Congress was a memo copied to Mr Grubman that listed executives at several telecoms firms who had expressed interest in shares in IPOs.

Regulators and the courts will have to decide whether allocations of shares to executives were, in effect, bribes. If so, the punishment could be severe. Nor is Citi the only firm at risk. Credit Suisse First Boston gave shares in IPOs to executives minded to award it investment-banking business, via so-called “Friends of Frank” accounts, named after Frank Quattrone, its top technology investment banker.

CSFB and Goldman Sachs now form part of the congressional investigation. And Morgan Stanley may soon face scrutiny over the role of Mary Meeker, formerly its top Internet analyst.

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Japan

The not-in-time economy

Sep 5th 2002 | TOKYO
From The Economist print edition

It is easy to see why the Nikkei has hit a 19-year low

ONCE again, Japan is paying the price for waiting. A combination of weak demand at home and bad economic news from America raised fresh doubts this week about whether its recent pick-up in output is here to stay. After putting off reforms, fiddling with the stockmarket and holding their breath at the end of the financial year in March, Japan's policymakers find themselves not far from where they were six months ago. Only now they are a little deeper in debt, have more countries rated above them in the international-bond tables, and have fewer ways to disguise their bad decisions.

Following signs of stagnant demand from America, investors sold off shares in exporters such as Sony, Toyota and Honda. Since a handful of such firms have supplied most of Japan's good news this year, shares in other domestic firms suffered as well, helping this week to drive the main Nikkei share index briefly below 9,000, where it last was in 1983. Because banks must report interim results at the end of this month, and must add losses on all those shares to their already weak balance sheets, confidence in the financial system is more than usually shaky.

This familiar cycle does not appear, despite a lower stockmarket, to be jangling nerves the way it did six months ago, when a weak yen and the looming repeal of insurance on some bank deposits raised the stakes. But in other respects, the situation has grown less encouraging. Earlier this year, optimists could at least take solace from signs that the economy was rebounding in the first quarter, from a dismally deflationary 2001. It now turns out, however, that all of that growth was illusory. After revising the way it tots up the figures, the government announced at the end of August that GDP growth had been zero in the first quarter, not the 5.7% annual rate that was announced earlier.

The second quarter was better, but not especially reassuring, with GDP rising at an annual rate of 1.9%. Industrial production rose sharply in April and May, but it tailed off again in June and July. Domestic demand refuses to show a convincing bounce, leaving the economy desperately dependent on those exports and overseas earnings. Even as Honda and Toyota have racked up profits in America, for example, domestic car sales have fallen year on year for the 12th straight month.

Things may yet turn around a bit. Surveys of small firms have shown rising confidence recently. Richard Jerram, chief economist at ING Barings in Tokyo, points to recent consumer surveys, which have been a good leading indicator and which suggest that deflationary pressures may soon ease up a little as well. And there is always luck: demand from overseas may perk up again. None of this will mean much, however, if domestic demand does not strengthen, with at least a mild uptick in capital investment. Otherwise, another white-knuckle March, when the financial year comes round again, may not be too far off.

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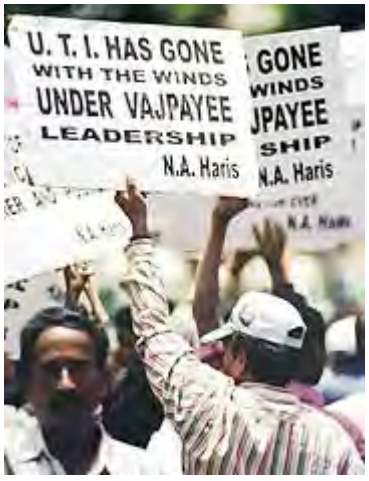
Unit Trust of India

To the rescue, once more

Sep 5th 2002 | MUMBAI
From The Economist print edition

And that's final

EPA



Not the end of the story

ON AUGUST 31st the Indian government announced its biggest-ever bail-out of a financial institution. The rescue of Unit Trust of India (UTI) will cost $3 billion, equivalent to a third of its assets under management. That takes the total cost of supporting this state-owned mutual-fund manager, which is the country's biggest, to around $4 billion. Its main fund, US-64, has been bailed out twice already in the past four years.

Of the $3 billion rescue package, just under half will go to support US-64, with the rest going to other mutual funds managed by UTI that face a shortfall between the returns they guaranteed investors and the market value of their assets. UTI itself will be divided into two parts: a sick part, consisting of funds that are being rescued, to be nursed by the government, and a healthy one run by professional managers that might be privatised later.

The bail-out is meant to reassure 29m investors in UTI, a big political constituency, and to revive a stockmarket worried about a distress sale of assets—UTI is the largest single investor. The cost of the bail-out will rise if the market now falls, because, under the rescue plan, the government will pay unit holders the difference between the fixed price promised to them and the market value of assets.

The asset manager's chairman, Meleveetil Damodaran, a finance ministry bureaucrat who took charge last year, says the government expects eventually to wind down its commitments to the old, protected UTI funds. The government hopes that an orderly exit from these funds will cost less than if there were a run on them. Orderliness might prove hard to manage. Already, more sops have been promised next year. Investors in US-64 will get tax breaks, while government-guaranteed returns will extend beyond May next year, when they were to end.

The healthier bit of UTI that is to be run by professional managers will be more than twice the size of the biggest private-sector mutual fund, Prudential ICICI. Privately managed funds, including those run by foreign companies such as Prudential, Templeton and Zurich Financial, are growing. At the end of July their combined market share stood at 47% of assets under management, just ahead of UTI, whose market share has fallen to 45%, from 65% a couple of years ago.

Perhaps private firms will one day be interested in UTI. But first the plan to privatise UTI has to be vetted by parliament, which could take forever. Given their opposition to the privatisation of state oil and telecoms companies, India's politicians might well thwart a UTI sale. Another possible buyer is Life Insurance Corporation, which is state-owned. That would be a disaster. India's new insurance regulator recently warned it over guaranteeing high rates of return on its insurance products.

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Economics focus

To burst or not to burst?

Sep 5th 2002
From The Economist print edition

Was Alan Greenspan really powerless to stop the stockmarket bubble?

EVERY August central bankers and economists gather in the Rocky Mountain resort of Jackson Hole, Wyoming, for the annual symposium of the Federal Reserve Bank of Kansas City. This year Alan Greenspan, chairman of the Federal Reserve Board, used the opportunity to give his fullest defence yet against charges that he should have raised interest rates in the late 1990s enough to prick the stockmarket bubble before it got too big. The Fed, like other central banks, takes account of rising asset prices (shares or property) to the extent that they boost spending and hence future inflation. Yet a financial bubble can inflate even when inflation in goods and services remains low. And when a bubble bursts, it may cause severe balance-sheet strains—of the kind now showing in America.

Mr Greenspan offers two defences for failing to respond to the bubble. First, he argues that it was impossible to be certain that the rise in share prices in the late 1990s really was a bubble until after it had burst. Second, even if a central bank can detect a bubble, it is not clear what it can do. A small rise in interest rates might not work; by increasing confidence in the central bank's powers, it might even boost share prices further. On the other hand, a sharp increase in rates could trigger a recession—the very outcome central bankers would be seeking to avoid, says Mr Greenspan.

Detecting and pricking bubbles are both difficult, but that is not a justification for doing nothing. Monetary policy always deals with uncertainty. Judging whether a rise in share prices is justified by an increase in productivity growth is surely not that different from deciding whether the potential rate of growth has increased or decreased. Central banks have to do that to estimate the gap between actual and potential output—itself an important input for forecasting inflation. A central bank does not need to be completely certain to act. Unrealistic profit expectations built into share prices in the late 1990s pointed to the strong probability of a bubble.

Supporters of Mr Greenspan argue that central bankers are unlikely to have more information or to make better judgments about share prices than markets do. Yet central bankers have longer time horizons and different incentives from the private sector. In other words, in many circumstances they may respond differently to the same information.

What of Mr Greenspan's second claim, that a small rise in interest rates might prove counterproductive? He cites three years—1989, 1994 and 1999—when share prices continued to rise even as the Federal Reserve raised rates. All the same, the impact of higher rates might be different if the Fed were actually to state that its aim was to cool the stockmarket.

There may be no painless way to deflate bubbles. Yet the correct test is not whether a bubble can be deflated without some loss of output. Rather, it is whether the early pricking of a bubble causes less pain than letting it grow only to burst later. The longer a bubble is allowed to inflate, the more it encourages the build-up of other imbalances, such as too much borrowing and investment, which have the power to turn a mild downturn into something nastier. If the Fed had let some air out of the bubble earlier, America's economy might now be better placed for future growth.

A recent paper* by Claudio Borio and Philip Lowe at the Bank for International Settlements addresses the problem of identifying bubbles. The authors argue that the focus on asset-price bubbles alone is wrong. It is only when a boom in share prices or house prices is combined with a big increase in debt and overinvestment by firms that economic and financial stability is threatened. From a study of 34 countries since 1960, Mr Borio and Mr Lowe conclude that a simultaneous surge in both credit and asset prices gives a pretty reliable warning of financial problems ahead. The case for a rise in interest rates is therefore stronger when asset-price rises go hand-in-hand with rapid growth in credit—as in America in

the late 1990s.

Fuelling the fire

Admittedly, for the Fed to justify an increase in interest rates when inflation was low would have been hard—but not impossible. It could, for instance, have argued that raising rates and so containing financial imbalances would avoid future economic instability and hence a large undershoot in future inflation.

Central bankers do not have a political mandate to respond to asset prices. Even so, Mr Greenspan could still have done more to warn investors about their irrational exuberance (which he talked of as long ago as December 1996). At least he could have refrained from talking up share prices, if unintentionally, through his enthusiasm for the new economy. Mr Greenspan repeatedly expressed confidence that America's productivity growth had risen significantly, encouraging investors to form unrealistic profit expectations. Estimates of productivity growth have since been cut. Goldman Sachs has shaved its estimate of trend productivity growth to 2%. Two years ago, most economists had their sights on 3% or more.

One positive sign: in his speech Mr Greenspan did at least accept that the Fed should try to identify bubbles and to incorporate them into economic models. But for the moment he doubts that central banks can do anything about them.

If the American economy recovers fast, then Mr Greenspan's policies will be vindicated—if bubbles left to burst of their own accord result only in a mild recession, central banks do not need to prick them. If America suffers several years of slow growth as its financial imbalances unwind, however, the verdict must be that the Fed got it wrong.

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* "Asset prices, financial and monetary stability: exploring the nexus", by C. Borio and P. Lowe. BIS Working Paper No. 114, July 2002

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Sustainable development

The bubble-and-squeak summit

Sep 5th 2002 | JOHANNESBURG
From The Economist print edition

So what was achieved by ten days of talking?

SOME Britons are fond of a dish made by mashing and heating the remnants of previous meals. The mysterious repast known as bubble-and-squeak is not *haute cuisine*, but it is good in parts. Much the same might be said of the United Nations' World Summit on Sustainable Development that closed this week. Almost everything on the menu at Johannesburg had been served up before, at one conference or another.

Thus, development targets were rehashed from a turn-of-the-millennium meeting in New York. “New” aid packages from rich countries proved to be warmed-up pledges first made at a finance-for-development bash held in Monterrey, Mexico, this year. On the side, talks on market access and farm subsidies reconfirmed promises on freeing trade that were made at talks in Doha, Qatar, last year. The main green “successes” were unilateral declarations of support for a protocol on greenhouse gases that was drawn up in Kyoto in 1997.

The UN man in charge of the summit, Nitin Desai, says all this was to the good. The official meeting of 21,000 delegates was not supposed to raise big new issues, but rather to consider well-known problems and find practical ways to solve them. Delegates, presidents and spin-doctors queued up to say the meeting was about “actions not words”, “starting a new era of implementation” and “creating partnerships”. The Rio environment summit ten years ago produced a well-received final declaration, but little of substance followed. Clare Short, Britain's development minister, says the reverse is true, on both counts, of this year's talks.

Squeak less, bubble more

Although Ms Short and other government delegates were unimpressed by the final Johannesburg text and its separate political declaration, they point to a few specific commitments and a useful emphasis on fighting poverty rather than on conservation. Most striking was a promise to cut by half the number of people with inadequate water and sanitation, and to try to do so by 2015. The evidence from unglamorous sewerage and hygiene projects is that helping an extra billion people in this way will do much to reduce diarrhoea, cholera and other water-borne diseases that strike the poor disproportionately.

The UN Development Programme (UNDP) is charged with monitoring progress towards this target and towards other, restated, Millennium Development Goals—to halve the number of people living in absolute poverty, to cut illiteracy and to cut child mortality, also by 2015. It will do so mostly by collecting new and reliable statistics and by presenting annual country-by-country reviews. With proper figures and accepted priorities for aid spending, governments should be better able to fight poverty. Money would help too: America, Britain and France each said that aid would be channelled towards poor-country sanitation projects.

Although Africa is likely to benefit from anti-poverty measures, some of its leaders did little to help themselves during the ten days of talks. The leaders of Zimbabwe and Namibia took turns haranguing western leaders, especially Britain's Tony Blair, for meddling in the continent, even though southern Africa, much of which is in the grip of famine, depends on foreign help to feed around 14m people. Levy Mwanawasa, Zambia's president, said again that his government would refuse “poison” as food aid, and will therefore turn away genetically modified (GM) grain, despite reassurances from Europe, America and the World Food Programme that there are no health risks involved. Yet the WFP has enough GM grain stocks to feed for two months the 2½m Zambians who are suffering from famine. Its non-GM stocks will last only two more weeks, and will be hard to replenish.

On environmental matters, the summiteers agreed to do more to conserve and restore fish stocks, in part by promising to guard ocean areas already designated as protected—with 2015 chosen, once again, as the date for achieving success. Leaders from China and Estonia used their five minutes in the plenary session to announce ratification of the Kyoto protocol. This sets out rules for how much rich countries should cut emissions of greenhouse gases, such as carbon dioxide, that are thought to add to global warming. The prime ministers of both Russia and Canada promised to ratify soon. When they have done so, the protocol will have enough support to come into force, despite America's refusal to agree to it.

So much for the specifics. Much of the rest was mushy and imprecise. After resistance from oil-producing countries led by Venezuela, from America, and from poor countries worried by costs, the final text includes no targets for the use of renewable energy sources such as wind, sunlight and waves. The Americans opposed “unrealistic” targets for these technologies in particular, and any outside meddling in domestic energy policies in general.

Environmental activists and some American renewable-energy companies were predictably disappointed. But enthusiasts said they were happy that, for the first time, such a UN conference had declared an “urgent need” to “increase the share of renewables” in global energy production. European Union countries and Brazil had wanted targets, and may well announce them unilaterally. South Africa said it would reveal its target for renewable-energy production within a few weeks. Seven of the world's largest energy companies also announced that they would share technical plans on how to get more solar-powered generation plants to rural areas in poor countries.

Such private efforts were reckoned by the summit's cheerleaders to be its main success—although many activists were furious about “corporate takeover” of the meeting, calling it a victory for greed and a tragedy for the poor and for the environment. Business was barely present in Rio ten years ago, but some 700 companies and 50 chief executives attended the Johannesburg talks.

This week Mr Desai happily rattled off lists of 230 “type 2” initiatives agreed between governments, companies and non-governmental groups (type 1 initiatives are those between governments alone). Some will no doubt prove to be public-relations stunts, but the successful ones are meant to import private money and expertise into development projects. HSBC, a big bank, plans to spend $50m over the next five years on lending 2,000 of its staff to work on projects run by environmental groups such as Earthwatch. Alcan, a Canadian aluminium company, says it will help villagers in Bangladesh to remove arsenic from their water supplies.

Mark Malloch Brown, the UNDP's boss, also wants more official aid used to “leverage” private cash into poor economies. He thinks it might be used to cut the cost of hooking villages up to local electricity-generating plants, or to subsidise the prices charged. But some firms are already taking it upon themselves to do things previously left to governments. Shell, a large oil company, plans to put solar panels in thousands of rural homes in poor countries. Various mining companies that operate in southern Africa, including Debswana, De Beers and Anglo American, have promised free anti-AIDS drugs and health care for infected workers and their families.

These public-private partnerships may have more impact than all the fine words spewed at the Rio talks. But many delegates in Johannesburg say that this should be the last great UN gabfest on sustainable

development. “The time for these general summits is gone, we don't need another meeting like this in 2012, this is enough” said Anders Rasmussen, Denmark's prime minister and the EU's current president. Smaller, focused meetings should be expected instead of jamborees that take too much effort and usually produce slight results. And yet, as eaters of bubble-and-squeak sometimes find, another plateful is often just too tempting.

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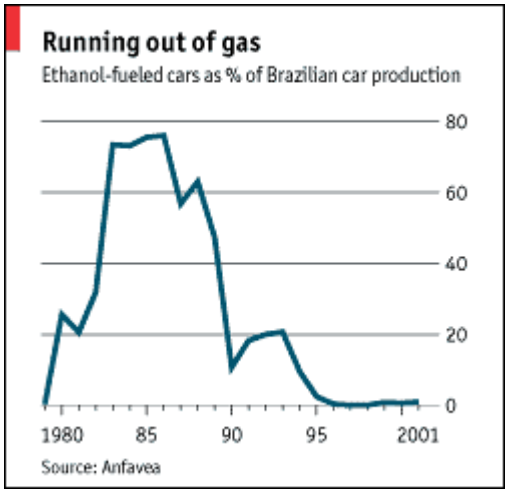
Renewable fuels

Driven to alcohol

Sep 5th 2002 | SAO PAULO
From The Economist print edition

Brazil has another try at running its cars on ethanol made from sugar cane



ONE of the deals struck at the Johannesburg summit on sustainable development was a pact between Brazil and Germany to develop a scheme in which German companies will subsidise Brazilians to buy cars that run on ethanol instead of petrol. That should reduce emissions of carbon dioxide, the principal greenhouse gas covered by the Kyoto protocol, an agreement intended to curb global warming. The “credits” that the German firms earn from this will count towards their country's targets under the protocol. Brazil thinks it will benefit by reducing its dependence on imported oil.

The proposal is part of Brazil's drive to revive its ethanol-fuel programme, which was a huge, though brief, success in the mid-1980s. At its height, three-quarters of all new cars sold in the country ran on pure ethanol. But by the late 1990s this had fallen close to zero (see chart), although all petrol sold in Brazil contains 26% ethanol, a mixture on which standard petrol engines can run without adaptation.

Sugar cane, like other plants, absorbs carbon dioxide from the atmosphere during photosynthesis. Burning ethanol made from sugar thus returns to the atmosphere what was recently there, rather than adding carbon that was previously underground. Unfortunately, turning sugar cane into ethanol uses more energy, and thus causes more greenhouse-gas emission, than making petrol from crude oil. Nevertheless, says Lew Fulton of the International Energy Agency, a sister body of the OECD, studies suggest that Brazil's present method of making ethanol fuel from sugar leads to net savings of about 50% in greenhouse-gas emissions per kilometre travelled, compared with running cars on petrol.

And the cuts in emissions could be much greater. At the moment, after squeezing the sugar out, the crushed cane is chucked away or burnt. Its carbon therefore returns to the atmosphere without doing anything useful. But since the cane itself is made of cellulose—in other words, polymerised sugar—it can be broken down with acid and used to make more ethanol. In America, ethanol is made from maize and other crops by turning their complex carbohydrates into sugar in this way, though this is only viable thanks to big government subsidies.

It was the high cost of imported energy after the 1970s oil shocks, rather than environmental considerations, that made Brazil switch to ethanol the first time round. As one of the world's biggest sugar producers, it assumed it would have no problem guaranteeing its motorists supplies of home-produced ethanol. But a surge in the world price of sugar meant growers could get more money from exporting the stuff than from selling it to local distilleries. As a result, many distilleries shut, leading to shortages of ethanol just as motorists were anyway tiring of the reluctance of ethanol-fuelled cars to start on cold mornings. Meanwhile, the oil shock had given way to an oil-price slump, and petrol was cheap again. Motorists therefore stopped buying ethanol-fuelled cars, and car makers all but stopped making them.

Recently, the oil price has risen, as have worries about Brazil's balance of payments and foreign debt. So the government has decided to try again. It has leant on car makers to introduce new models that run on ethanol and, this month, the sales tax on such cars was cut. Modern fuel-injection means that cold starts are no longer a problem. Motorists are duly returning: in the first seven months of this year, they bought 23,000 ethanol-fuelled cars, compared with fewer than 8,000 in the same period last year. Besides rising

oil prices, the sharp fall in the *real* and improvements in the efficiency of sugar plantations and distilleries mean that ethanol-powered cars may no longer need subsidies to compete with petrol-driven ones, says Dr Fulton, though they still get them.

Of course, there is more to being environmentally friendly than cutting greenhouse gases. Sugar cane is notorious for depleting soil nutrients and thus being a voracious consumer of agro-chemicals. But this is being overcome. Plantations in Brazil are progressively being banned from burning foliage, and persuaded instead to leave it on the ground to compost, returning to the soil much of the nitrogen that the growing plants have removed. On top of this, sugar cane grown for fuel production, rather than for food, can be fertilised using treated sewage, thereby providing a use for the growing quantities of human waste emerging from Brazil's cities.

Many details of the revived ethanol-fuel scheme are still to be worked out—such as how to manage and finance stocks of ethanol to guarantee continuity of supply. But overall, its chances both of saving Brazil money and of helping to avoid global warming look rather better now than they did the first time round.

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Recreational drugs

The agony and the Ecstasy

Sep 5th 2002
From The Economist print edition

A scientific row has broken out over the effects of Ecstasy

Get article background

No brain damage here, mate

WHAT with angry parents, alarming headlines and crusading politicians proclaiming the dangers of MDMA—a recreational drug more commonly known as Ecstasy—it takes a brave, or foolhardy, individual to go against the grain. Jon Cole, an addiction researcher at Liverpool University, in England, denies that he is either, but his unorthodox views about the long-term effects of Ecstasy are still kicking up a storm. In this month's issue of the *Psychologist* Dr Cole and his colleagues argue that experimental evidence suggesting a link between Ecstasy use and problems such as nerve damage and brain impairment is flawed, and that using this ill-substantiated cause-and-effect to tell the “chemical generation” that they are brain-damaged when they are not creates public health problems of its own.

Over the past decade, Ecstasy has become the badge of youth subculture in Europe and America, and a weekend favourite with night-clubbers looking to boost the high of a night on the town. Perhaps as many as 3m people in Britain and more than 6m in America have tried the drug at some point, with an estimated 500,000 being regular consumers in Britain alone.

Overdoses of Ecstasy can kill, in part by causing ravers to overheat and drink too much fluid—which lowers the level of salt in their blood and throws their hearts out of kilter. Some 40 people died of Ecstasy-related causes in England and Wales last year, twice as many as in 2000. For all this, many users consider Ecstasy to be a soft and sociable drug, along the lines of cannabis or alcohol, rather than a dark and dangerous substance like heroin.

Drug researchers such as Andy Parrott, at the University of East London, beg to differ. They point to a range of studies showing that regular Ecstasy use can alter the levels in the brain of a molecule called serotonin. This substance carries signals between certain sorts of nerve cells. The result is an undermining of memory, sleep, appetite and (perhaps most worryingly for clubbers) sex drive. It can also lead to concentration problems, anxiety, impulsive behaviour and depression.

In America, those who advocate the use of MDMA in clinical practice have long questioned this experimental record. Now the challenge has come to Britain; indeed one of Dr Cole's co-authors, Charles Grob, a psychiatrist at Harbor-UCLA Medical Centre in Los Angeles, is a leading exponent of using MDMA as a therapy.

The review carried out by Dr Cole finds fault with much of the evidence on the effects of MDMA. He is particularly concerned about research that shows long-term mental changes in Ecstasy users. He argues that these studies are flawed because they fail to control for other factors, such as pre-existing psychological complaints or other drug use. These, not MDMA, he suggests, may be causing the problems observed.

Furthermore, he reckons that research which questions the long-term damage of Ecstasy is being suppressed by scientists keen to accentuate the negative. Not so, according to Dr Parrott, who describes Dr Cole's views as irresponsible and accuses him of the same sin of selective publishing. He cites a ream

of studies which refute Dr Cole's points in his response to the paper in the same issue of the *Psychologist*.

Other experts are not quite so dismissive. Michael Morgan, an experimental psychologist at Sussex University, admits that there are holes in the experimental record that need to be filled before the link between the drug and nasty long-term effects moves from correlation to causation.

For example, animal tests are a good way to see the effects of MDMA unsullied by the presence of other drugs. Dr Cole argues that, though animal studies routinely show brain damage from MDMA, few have demonstrated that this actually has any effect on an animal's daily life. But as Dr Morgan points out, the sorts of complex traits, such as impulsive behaviour, that MDMA is thought to produce in people are hard to examine in animal experiments.

Improvements in imaging technology, which can show how the brains of Ecstasy users change over time, could help. So could more sophisticated ways of measuring drug use, such as sampling people's hair. This lays down MDMA as it grows, and thus provides a record of exposure that is more reliable than users' own recollections. Dr Morgan hopes to put some of these new approaches into practice by embarking on a three-year study of 1,000 university students to deal with some critical unresolved questions, such as whether light users of the drug, who take it seemingly without side-effects, are actually storing up problems for the future.

As advocates of drug liberalisation have found, the deadweight of popular opinion admits of little dissent. Yet such dissent should act as a call to clarify the science involved—which even those who are convinced of MDMA's dangers should surely welcome, since they seem so confident of the outcome. Until the uncertainties are cleared up, however, you pay your money and you take your chance.

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Islamic terrorism

Men in black

Sep 5th 2002
From The Economist print edition

Magnum

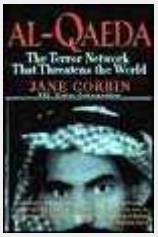
Is Osama bin Laden's al-Qaeda the advance guard of a Muslim holy war, or a scattered gang of anti-American terrorists who got lucky? Do any of us know?

THE most alarming conclusion to be drawn from two new books about al-Qaeda is how little we really know about it. Despite a year-long global hunt, it remains unclear how strong the organisation is, how far it extends and precisely how last September's plot was hatched and executed. Indeed, basic questions, such as how a multinational cell of conspirators in Hamburg joined up with a group of American-based Saudi musclemen with “clean” backgrounds to launch attacks on New York and Washington still await answers. The failure to capture Osama bin Laden, or even to ascertain whether he is dead or alive, is a telling sign of general puzzlement. If western intelligence services know better than the rest of us, they are keeping their knowledge extremely quiet.

In the bewildering weeks after the attacks, the CIA depicted al-Qaeda as a ruthless network reaching into 50 countries. This hastily sketched portrait served the understandable purposes of rallying America to defend itself against a disciplined, well-prepared foe—if such it was, and who could then be sure?—and of deflecting the charge that American intelligence had been napping. What open, democratic country could have been expected to defend itself in advance against such a sneaky, hydra-headed opponent?

One year on, the truth appears less simple. In the rush to paint Mr bin Laden as a nightmarish amalgam of James Bond and Joseph Stalin, western governments suggested that every radical Islamic group from Algeria to Malaysia was an arm of al-Qaeda. This, to say the least, is unproven. Although Mr bin Laden's camps in Afghanistan were broken up by American bombs, almost none of his putative allies across the world has retaliated. Hamas and other Palestinian groups have an ample supply of suicide bombers. Yet they have kept their focus on Israel, leaving al-Qaeda to rely on minor figures such as Richard Reid, the British-born would-be shoe bomber, to exact revenge for the Taliban's fall and the loss of Afghanistan.

Al-Qaeda: The Terror Network that Threatens the World
By Jane Corbin



Thunder's Mouth Press/Nation Books; 296 pages; $24.95. Published in Britain as “The Base: In Search of al-Qaeda, the Terror Network that Shook the World” from Simon & Schuster; £18.99

Buy it at
Amazon.com
Amazon.co.uk

Inside al-Qaeda: Global Network of Terror
By Rohan Gunaratna

These two books promise readers an inside view of al-Qaeda. But in the absence of talkative defectors they rely almost entirely on Mr bin Laden's public statements, and on court testimonies arising from the 1993 World Trade Centre bombing and the attacks five years later on American embassies in Kenya and Tanzania.

Columbia University Press; 240 pages; $22.95. Hurst; £25 (hardback), £12.95 (paperback)

Buy it at
Amazon.com
Amazon.co.uk

In “Al-Qaeda: The Terror Network that Threatens the World'', Jane Corbin traces the rise of Mr bin Laden's group, focusing on the September plot and its aftermath. Ms Corbin, a BBC journalist who has made several documentaries about al-Qaeda, credits the group for its skills and cunning. But the cascade of missed chances to detect the conspiracies form an equally important counterpoint to her gripping narrative. The first of these was in Germany, where Ms Corbin reports that the internal security agency responsible for Hamburg had only two officers on the Islamic watch, neither of whom spoke Arabic.

The unconnected dots were even commoner in America. An FBI agent's request to look into the suspicious number of Islamic radicals in aviation schools was ignored. Months later, senior FBI officials rebuffed pleas from agents in Minnesota to search the computer of Zacarias Moussaoui, who had ties to the hijackers. Despite al-Qaeda's vaunted professionalism, Mohammed Atta, the ringleader, twice entered the United States with an expired visa. Only last month, a German prosecutor disclosed that the German cell had sent more than 30 e-mail applications to American flight schools.

Blaming intelligence services for past oversights, however, is probably looking in the wrong place. Successful terror almost by definition catches authorities off guard. What matters is how well you identify and deal with the threat thereafter.

Rohan Gunaratna's “Inside al-Qaeda: Global Network of Terror”, embraces the notion of Mr bin Laden as the godfather of an army of terror with foot soldiers in every region of the world. A research fellow at the Centre for the Study of Terrorism and Political Violence at St Andrews University in Scotland, Mr Gunaratna mixes his own interviews with a blizzard of secondary sources of uncertain reliability. He asserts, without providing details, that Imad Mugniyah, a Shia terrorist and leading figure in Hizbullah, gave al-Qaeda the expertise it needed to carry out the bombings of the American embassies in Nairobi and Dar es Salaam. The back-up? A single interview with an unnamed American “intelligence community” official.

Neither book sheds enormous light on the vital question of what Mr bin Laden's surviving followers want. Are their goals global and ideological or regional and political? Is al-Qaeda's worldwide call to kill Americans and Jews the opening cry of an anti-western holy war? Or will it be satisfied if American troops leave Saudi Arabia and the house of Saud collapses?

Nobody seems to know. But having a head full of questions is no reason to drop your guard. In the past, al-Qaeda's attacks have come at intervals of 12-18 months, and Ms Corbin for one believes there will be more. Despite lingering uncertainties about the scale and nature of the threat, her book suggests a clear path for western governments: tighten borders and make warring intelligence agencies work together against an adversary which, if not quite ten feet tall, was skilled enough to land blows of incalculable devastation.

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By Jane Corbin.
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About sponsorship

On screen

Boxing terror

Sep 5th 2002
From The Economist print edition

After the towers came down

THE assault on New York made for horrible—and horribly irresistible—television. A year later, few film makers have been able to look away from the event itself. Among them are two notable exceptions.

“Avenging Terror”, shown last week on Britain's Channel 4 and going out on PBS in America on September 8th, tells how the international anti-terror coalition was put together. In persuading so many key players, including Vladimir Putin, top Americans and Pakistan's General Pervez Musharraf, to tell their part direct to camera, Norma Percy has created a political narrative of surprising intimacy and authority.

Quite differently, a French television channel, CanalPlus, offered 11 directors, including Youssef Chahine from Egypt, Britain's Ken Loach and Alejandro Iñarritu of Mexico, the chance to explore their reaction to the attacks in an ensemble of short films for cinema. In the current climate they are unlikely to get much of an airing in the United States, but there may come a time when Americans will be more willing to listen to why their country continues to terrify and infuriate so many people.

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Arab media

Island in the sun

Sep 5th 2002
From The Economist print edition

TO ITS critics, the television channel al-Jazeera is the voice of terror, churning out propaganda for Osama bin Laden and Saddam Hussein. But to its many Arab fans, the six-year-old station is an oasis of freedom in the arid desert of the Arabic media. Love it or loathe it, the 24-hour Arabic news channel based in the tiny state of Qatar has become hard to ignore.

Mohammed el-Nawawy and Adel Iskandar are fans, as their over-heated subtitle makes plain. Citing what they admit are estimates, they put the network's audience at 35m in the Middle East and among the Arab diaspora. The reason for such success, they say, is that al-Jazeera sides with people against governments. Its live and often noisy debates have given a platform for dissent on corruption, human rights, Islam and the role of women, topics often ignored or suppressed in the Arabic media.

The network was set up in 1996 with $140m—supposedly a five-year loan—from the Emir of Qatar, Sheikh Hamad. It now has 350 journalists and 50 correspondents working in 31 countries. Notoriety in the West came after September 11th, when al-Jazeera broadcast—and sold on to the western media—videos of Mr bin Laden's pronouncements. When American officials asked Sheikh Hamad to stop al-Jazeera from giving terrorists a voice, he politely reminded them that for years they had been nagging Arab governments to open up their media. The Bush administration's dislike of al-Jazeera has not stopped Colin Powell, Condoleezza Rice and Donald Rumsfeld from appearing on the channel.

Messrs el-Nawawy and Iskandar struggle to defend the network against its detractors. They appeal at one point to the dubious idea of “contextual objectivity”: al-Jazeera presents an Arab view of the world, just as CNN presents an American one. This is at best a muddle, at worst, an evasion. As to charges of being pro-Taliban and pro-Saddam, the authors are reluctant to acknowledge that the network has indeed pulled its punches in return for exclusive footage from Kabul and Baghdad.

Al-Jazeera's true flaw, however, may lie in its relationship with Qatar. Not only has that loan not been repaid; according to the authors, the Qatari government has also been pumping as much as $100m a year into the channel. What is in this for the emir? Creating it was an act of sheikhly one-upmanship which gave the ambitious ruler of a postage-stamp state new leverage over his neighbours. In “Satellite Realms” (I.B. Tauris), published earlier this year, Naomi Sakr provided the broader context in which al-Jazeera's rise should be seen. The explosion of satellite television in the Middle East since CNN's victory in the Gulf war has been dramatic. But, as she makes clear, the region's governments have gone to great lengths to make media companies stick to a code of conduct, which in itself is code for not being overly critical. Powerful countries, principally Saudi Arabia, have bullied advertisers to punish those, like al-Jazeera, who disobey. Deprived of commercial autonomy and dependent on princely handouts, al-Jazeera illustrates the fragility as much as the vibrance of Arab societies.

Al-Jazeera: How the Free Arab News Network Scooped the World and Changed the Middle East.
By Mohammed el-Nawawy and Adel Iskandar.
Westview Press; 240 pages; $24 and £16.99

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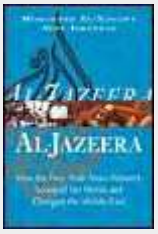

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Civil liberties

Easy to lose

Sep 5th 2002
From The Economist print edition

IT TOOK the United States Congress six weeks after the September 11th attacks to give sweeping new powers to just about every law enforcement agency—from the FBI and CIA to the Treasury Department and Immigration and Naturalisation Service—to wiretap telephone conversations, read e-mails and monitor the Internet, as well as arrest, detain and deport suspicious individuals. The bill was more than 300 pages long, and few members of Congress had read it before they voted for in overwhelming numbers. How could anyone vote against? It was called the USA Patriot Act. Profiles in courage were few: only one senator, Russ Feingold, a liberal Democrat from Wisconsin, voted no.

Furthermore, John Ashcroft, America's attorney-general, declared that the authorities would now listen in on talks between lawyer and client if he deemed it necessary for security. And he announced for good measure that in some cases the government might use military tribunals.

To the authors of this collection, mainly civil-liberties activists, many of the legal measures introduced in the past year amount to what Michael Ratner, director of the Centre for Constitutional Rights, describes as the “most sweeping assaults on liberties in the last 50 years”. Others point out that they are anathema to American democratic values and that they cannot, in any case, guarantee everyone's safety.

These views will not be popular. But they need saying. Many times before, Americans have reacted to fears of foreigners with harsh measures only later to regret it, as Ira Glasser, a former director of the American Civil Liberties Union, notes in the opening essay.

Over the past year, the new powers were deployed most visibly against non-citizens, predominantly Muslim-Arab ones. More than 1,000 were rounded up and held for months without a lawyer, before release or deportation. Mr Ashcroft's department refuses to confirm the number, let alone the names, of those still held, though it is estimated at over 100. Arab-Americans are not an influential constituency in the United States, which may partly explain why public reaction to the restrictions of liberty has been muted.

David Cole, a civil-rights lawyer, is a professor at Georgetown University and a broadcaster on National Public Radio's “All Things Considered”. His co-author, James Dempsey, was a staffer on the House Judiciary Committee. Together, and in a more focused way than in a collection of essays, they list the constitutional dangers of the war on terror. Their book will not be popular either. But civil liberties seldom are—especially with governments.

It's a Free Country: Personal Freedom in America after September 11.
Edited by Danny Goldberg, Victor Goldberg and Robert Greenwald.
RDV Books; 362 pages; $19.95 and £14.99

Terrorism and the Constitution: Sacrificing Civil Liberties in the Name of National Security.
By David Cole and James X. Dempsey.
New Press; 240 pages; $16.95

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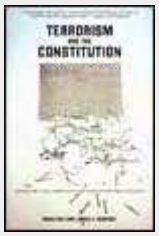

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A dozen further books to read (or avoid)

ON THE nature and scale of the menace, Daniel Pipes's **Militant Islam Reaches America** (Norton), sees the wider world as threatened by the violent outspill of a struggle for supremacy within Islam. He is less sanguine than Gilles Kepel, author of **Jihad: The Trial of Political Islam** (Harvard, I.B. Tauris), that the influence of anti-western fundamentalism has peaked. Owen Bennett Jones, in **Pakistan: Eye of the Storm** (Yale), focuses on one arena of that struggle within Islam. As to the wider consequences of September 11th, everyone will have a favourite and least favourite columnist. Thomas Friedman of the *New York Times* has the benefit of years of experience gathered in the Middle East. His **Longitudes and Attitudes** (Farrar, Straus & Giroux) comprises opinion pieces he wrote after September 11th until June of this year. Agree or not, they make a readable guide to the issues and arguments facing American policymakers.

When war was declared on terror, many people asked who or what was the enemy. Two informative books on terrorism help sharpen the answer. **Combating Terrorism: Strategies of Ten Countries** (University of Michigan Press), a collection edited by Yonah Alexander, reminds us that the United States is not alone in facing this scourge, and compares experiences in counter-terrorism. David Whittaker's **Terrorism: Understanding the Global Threat** (Longman) is a clear and accessible survey of terrorist motives and methods, strengthened by several tables and a helpful chronology from 1968 to the present.

As terror is a psychological weapon of the weak used to undermine the self-confidence and authority of the strong, the psychological element in counter-terror is vital. Reminding yourself that your society and its values cannot be shaken is part of the war against terror: standing up for America matters. In this regard, do not be put off by the bragging title of Dinesh D'Souza's **What's So Great About America** (Regnery). Striking a middle path between left-wing multiculturalism and religious conservatism, he argues that America's founding originality was the separation of church and state, a beacon of toleration for the world.

For many non-Americans, the fact of American power alone is enough to explain why the United States should provoke such hatred. In **Why Do People Hate America?** (Icon Books; Amazon.co.uk), Ziauddin Sardar and Merryl Wyn Davies provide a catalogue of American misdeeds and failings, real or imagined. It seems not to occur to them to ask whether, in fact, the world does hate America as much as they (and alas, too many Americans) suppose. A more balanced book on the urgent topic of Americans' and foreigners' misperceptions of each other is **The Eagle's Shadow** (Farrar, Straus & Giroux, Bloomsbury) by an American writer, Mark Hertsgaard, on why America fascinates and infuriates the world.

From a nation founded with a bill of rights, the voice of dissent is always stirring, irksome as it may be to democratic majorities and the powers that be. September 11th has thrown up two kinds of dissent, one worthless, one invaluable. The first, emanating chiefly from university English and cultural-studies departments, is a dissent of evasion or denial. **Dissent from the Homeland** (Duke University Press) is a lamentable example of self-styled social critics who have aestheticised politics and blinded themselves to the difference between death and its modes of representation. In vivid contrast are two well-informed sets of essays from the New Press in New York. **Understanding September 11** deals with Islamic radicalism, globalisation, terrorism, civil liberties and alternative viewpoints from a wide variety of authors, American and foreign. **Critical Views of September 11**, edited by Eric Hershberg and Kevin Moore, looks at the war on terror and related issues from a questioning vantage point.

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About sponsorship

At the Edinburgh festival

Hit me hard

Sep 5th 2002
From The Economist print edition

You need more than courage to make stand-up comedy out of Ground Zero

SEPTEMBER 11th dominated the Edinburgh fringe festival. Fresh-faced young Americans and middle-aged men brought the serious stuff: dramas about life-as-survival by an ensemble from the Playwrights Horizons' theatre school, life on a fire ladder as depicted by Tim Robbins and Susan Sarandon in “The Guys” and, inevitably a life-as-epic narrative by Steven Berkoff, fingers splayed and eyes popping as he artfully declaimed his staged poem, “Requiem for Ground Zero”.

All of which left life-as-art to irreverent, young non-Americans. Tina C, a British drag queen, scorned entertainers who made money out of the tragedy. Mockery, as well as self-mockery, underlay her “Twin Towers Tribute” as she pouted across the stage poking fun at a nation's inability to comprehend why it is so widely hated. In “Behind Enemy Lines”, an Anglo-Iranian stand-up comic, Omid Djalili, told jokes about terrorists and feeling paranoid. It was, in the end, a hit-and-miss effort. On stage, as elsewhere, it takes more than courage to land the perfect punch.

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New fiction

Letting go

Sep 5th 2002
From The Economist print edition

TRAGEDIES are often dispatched in short order, and most of life is aftermath. Aptly for this month's gloomy anniversary, coming to terms with gratuitous violence and untimely death is what consumes Alice Sebold's affecting first novel, “The Lovely Bones”. It has been a fiction hit in America all summer.

Raped and murdered by a misfit who has a habit of slaughtering young girls, 14-year-old Susie Salmon watches from a pleasant, convivial heaven as her family grieves her loss and gradually makes peace with the fact that her murderer is never prosecuted. Susie's father so obsesses over the sinister neighbour he is certain killed his daughter—and he's right—that he becomes a pest to the police. Her mother seeks refuge in an affair with a detective, and literalises her need to put the murder behind her by deserting her husband and their remaining two children. Friends battle between clinging to Susie's memory and getting on with their lives.

The Lovely Bones
By Alice Sebold

Little, Brown; 328 pages; $21.95.
Picador; £12.99

Buy it at
Amazon.com
Amazon.co.uk

Surprisingly, the conceit of looking down from heaven works nicely, since Ms Sebold avoids the precious, making Susie's paradise agreeably ordinary, a place where the dead learn to let go of the living while below the living learn to let go of the dead. The pervasive innocence of this novel will not appeal to all, but its direct, open emotions are refreshing—and suitable to a 14-year-old's voice.

Susie sees her killer ride out local suspicions, and kill again. But her comprehension of what drives him is limited. A disturbed childhood with a shoplifting mother doesn't begin to explain his depravity. Just as well, too, for getting a grip on malice entails accepting the inexplicable: “Because horror on Earth is real and it is every day. It is like a flower or like the sun; it cannot be contained.” Thus approaching human bloodlust as a natural phenomenon that people must live with like bad weather, Ms Sebold dramatises the Salmon family's halting, dogged healing without resort to a heart-tugging string section. However inscrutable she might find wickedness, equally enigmatic, as well as more compelling for her, is the improbable power to recover from it.

The Lovely Bones.
By Alice Sebold.
Little, Brown; 328 pages; $21.95.
Picador; £12.99

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About sponsorship

Bestsellers in America and Britain

What the world is reading

Sep 5th 2002
From The Economist print edition

Almost anything but terrorism and Iraq

HOW will the anniversary wave of September 11th books fare in the bestseller lists? It may be early to judge. But the American non-fiction list contains as yet only a single title that touches on the topic, Jere Longman's “Among the Heroes”, about the passengers on Flight 93 who fought back. Though the British non-fiction list includes two studies of second-world-war battles, there is nothing on either the terrorist attacks on New York and Washington or the ensuing war against terror.

Both fiction lists are, in fact, predictably light and end-of-summery, with plenty of big-name romance, crime and fantasy blockbusters. There are one or two exceptions, however, such as Alice Sebold's “The Lovely Bones”, whose popularity may reflect a post-September-11th mood in America (see article), and the charmingly titled “Porno”, Irvine Welsh's sequel to “Trainspotting”. That said, if sex, drugs and ultraviolence are your idea of fun, perhaps “Porno” might be thought of as perfectly light and end-of-summery too.

Bestsellers

	AMERICAN FICTION	AMERICAN NON-FICTION
1	**Red Rabbit** *by Tom Clancy* Jack's back	**The Perricone Prescription** *by Nicholas Perricone* Lose those sags, bags and wrinkles
2	**The Lovely Bones** *by Alice Sebold* The view from on high	**Slander: Liberal Lies About the American Right** *by Ann Coulter* In defence of Republicans
3	**Standing in the Rainbow** *by Fannie Flagg* Small-town, post-war yarn	**Sacred Contracts** *by Caroline Myss* What's your archetype?
4	**The Nanny Diaries** *by Emma McLaughlin and Nicola Kraus* Mary Poppins goes to Manhattan	**Who Moved My Cheese?** *by Spencer Johnson* Million-selling self-help fable
5	**The Beach House** *by James Patterson and Peter de Jonge* Death in the Hamptons	**Self Matters** *by Phillip C. McGraw* Looking out for number one
6	**A Love of My Own** *by E. Lynn Harris* Fast times at *Bling Bling* magazine	**Body for Life** *by Bill Phillips* Three months to total health
7	**The Remnant: On the Brink of Armageddon** *by Tim LaHaye and Jerry B. Jenkins* Apocalypse when?	**Good to Great** *by Jim Collins* The corporate X-factor
8	**Eleventh Hour** *by Catherine Coulter* FBI serial-killer thriller	**Stupid White Men** *by Michael Moore* What's wrong with America today
9	**Stone Kiss** *by Faye Kellerman* From the City of Angels to Hell's Kitchen	**The Right Words at the Right Time** *by Marlo Thomas* Inspirational anecdotes
10	**The Dive from Clausen's Pier** *by Ann Packer* Lakeside melodrama	**Among the Heroes** *by Jere Longman* Commemorating courage on Flight 93

	BRITISH FICTION	BRITISH NON-FICTION
1	**Porno** *by Irvine Welsh* "Trainspotting" sequel	**Cloughie: Walking on Water** *by Brian Clough* Reminiscences of a football-club manager
2	**Quentins** *by Maeve Binchy* Dublin restaurant docu-drama	**One Hit Wonderland** *by Tony Hawks* Global quest for a catchy melody
3	**Sunset in St Tropez** *by Danielle Steel* Life's a pebble beach	**Richard and Judy: The Autobiography** *by Richard Madeley and Judy Finnigan* Talk-show team talk about themselves
4	**The Beach House** *by James Patterson and Peter de Jonge* Death in the Hamptons	**Inside "Big Brother"** *by Jean Ritchie* Reality sound-bites
5	**The Straw Men** *by Michael Marshall* A funeral, a kidnapping, a raving lunatic	**The Road to McCarthy** *by Pete McCarthy* Myths of the McCarthys investigated
6	**Grave Secrets** *by Kathy Reichs* Getting forensic with Dr Temperance Brennan	**Elvis Presley: Unseen Archives** *edited by Marie Clayton* Anniversary tie-in
7	**Land of Fire** *by Chris Ryan* Back to the Falklands	**Berlin: The Downfall 1945** *by Antony Beevor* Anatomy of a bloody victory
8	**Beggars Banquet** *by Ian Rankin* Short-story collection	**Evelyn: A True Story** *by Evelyn Doyle* Landmark child-custody case
9	**Stone Kiss** *by Faye Kellerman* From the City of Angels to Hell's Kitchen	**Serious: The Autobiography** *by John McEnroe* He saw chalk dust
10	**The Shelters of Stone** *by Jean M. Auel* Fifth instalment in prehistoric saga	**D-Day: June 6, 1944** *by Stephen E. Ambrose* Battle for the Normandy beaches

Sources: *Publishers Weekly*; Nielsen BookScan

Descriptions by *The Economist*

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About sponsorship

Lionel Hampton

Sep 5th 2002
From The Economist print edition

Lionel Hampton, jazz musician, died on August 31st, aged 94

AP

HAD this newspaper been running an obituary page at the time, Louis Armstrong, who died in 1971, would have been a natural choice. Duke Ellington (died 1974) and Bessie Smith (died 1937) are among others who would have made it. Lionel Hampton was of that flowering, and had the good grace to live to 94.

Until a few years ago he would still take to the stage with a band. Once at the piano or vibraphone, an electronic instrument he introduced to jazz, the marks of age would fall away and the sweaty passion that he had first brought to jazz back in the 1930s would be relived; and “Flying Home”, his most famous composition, would soar for the hundredth, or perhaps the thousandth, time. Among the legends attached to “Flying Home” is that it depicts an American Flying Fortress bomber, damaged in a raid over Germany, with its crew urging on the aircraft as it strives to reach its base in eastern England. Listening to a recording of the number made during the second world war, with Mr Hampton's driving solos and his grunts of excitement as the pace quickens, it does seem to convey a will to win.

Never mind that “Flying Home” was written before the Americans went to war in 1941; Lionel Hampton, like Glenn Miller, provided much of the background music to the war. The young men and women who danced to his music until the floor creaked danced just as energetically when they went into uniform. Their children and grandchildren are still dancing to the derivative music of bands such as the Rolling Stones. Who invented rock and roll is an unsettled argument, but Mr Hampton had a hand in it. Perhaps because of his association with one of the more limited offshoots of jazz, the range of his gifts may have been overlooked.

The “beat in me”

At the age of six Lionel Hampton discovered what he called the “beat in me” while attending church in Alabama, where the congregation clapped along with a guitarist and other performers. What distinguishes the beat in jazz is that it is slightly delayed. It makes jazz sound relaxed. However many decibels Mr Hampton produced, however much excitement he generated, however much pandemonium he created on the dance floor, there was always in his music the delayed beat that underpins much of great jazz.

It is especially distinctive in a number of records he made with Benny Goodman. Although Goodman ran a successful swing band, he is remembered by connoisseurs for his quartet in which Mr Hampton played the vibraphone with melodic simplicity. Remarkably for the time, the group was racially mixed: Lionel Hampton and Teddy Wilson, the pianist in the quartet, were black. As his fame grew Mr Hampton was courted by politicians after the black vote. Harry Truman, a Democrat, was a fan and got Mr Hampton to play at his presidential inauguration. But Mr Hampton favoured the Republicans: unlike the Democrats, he said, Republicans helped blacks “without ballyhoo”.

The Republicans were pleasantly surprised. Mr Hampton was undoubtedly an asset to the party that sees itself as the promoter of self-reliance. He had learnt the rudiments of music from a nun at a boarding school where he was placed after his father was killed in the first world war. He worked as a newspaper seller to pay for tuition at a music school. By his late teens he was a professional musician in Chicago, playing piano, vibraphone and drums. Chicago was then the country's main jazz city, where Armstrong recorded “West End Blues”, considered by some to be America's finest piece of music, jazz or classical.

Mr Hampton worked for a while with Armstrong, as he did with most jazz musicians over the next 50 years, many of whom, such as Dizzie Gillespie, became famous as innovators. Mr Hampton remained a conservative in his musical style. “All those altered scales and harmonic extensions people were calling modern in the 1940s, I knew all about years earlier,” he said.

He was conservative too in his life offstage. Unlike musicians who blew their money and their minds on drink and drugs, Mr Hampton was a careful saver. He owned a record company and several blocks of flats in New York's Harlem district. He set up scholarships in music schools. Academe rewarded him with a dozen honorary doctorates. One of his vibraphones is in a Washington museum, along with Goodman's clarinet.

Mr Hampton became head of a group called Black Republicans. He campaigned for, among others, Richard Nixon, Ronald Reagan and George Bush, senior. After they were elected they sent Mr Hampton on world tours to promote American culture. The Germans especially appreciated his concerts. There is a road in Berlin called Hamptonstrasse.

Big-time politics was a temptation. He served on New York's Human Relations Commission and could perhaps have made it to Congress. The politician in him said, “I always liked to be taking bows.” But he was getting old. It was music, rather than the slog of politics, that made him feel young again; with the mallets falling on the vibes and the driving rhythm that got the crowd going. “Flying Home”. One more time.

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Overview

Sep 5th 2002
From The Economist print edition

Stockmarkets tumbled, on jitters about a possible war against Iraq and worries about the faltering recovery in rich countries. On September 3rd, the S&P 500 saw its biggest one-day fall since last year's terrorist attacks. Over the week it declined by 2.7%, while the Dow Jones Industrial Average fell by 3.1%. Europe's stockmarkets dropped even more sharply. France's CAC 40 fell by 7.3%, Germany's Xetra DAX by 7%, and Britain's FTSE 100 by 5.8%. In Japan, the Nikkei 225 hit a 19-year low on September 4th; it declined by 7.1% over the week.

American manufacturing failed to bounce back after July's sharp slowdown. The Institute of Supply Management's index remained at 50.5 in August, indicating minimal growth.

In the **euro area**, growth in both manufacturing and services also ground to a near standstill in August, according to surveys of purchasing managers. Retail sales fell by more than expected, declining by 0.9% in the year to June. Inflation rose from 1.9% in July to 2.1% in August, the highest annual rate since April and above the European Central Bank's ceiling of 2%.

Japan's economy grew at an annual rate of 1.9% in the second quarter, faster than expected. But revised figures showed that GDP had contracted by 0.1% in the first quarter rather than increasing by 5.7%, as previously estimated.

Statistics on 15 developed countries, plus closer looks at economic forecasts, and the outlook for interest rates

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Economic forecasts

Sep 5th 2002
From The Economist print edition

The Economist poll of forecasters, September averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2002	2003	2002	2003	2002	2003	2002	2003
Australia	3.4/4.6	3.2/4.3	4.0	3.7 (3.8)	2.8	2.5 (2.6)	−3.7 (−3.4)	−3.8 (−3.4)
Austria	0.5/1.3	1.8/2.8	0.9	2.4 (2.6)	1.7	1.7	−2.2 (−1.9)	−1.9 (−1.7)
Belgium	0.5/2.6	2.0/3.9	1.1 (1.3)	2.7 (2.9)	1.7	1.5 (1.6)	5.0 (4.8)	5.1 (4.9)
Britain	1.3/2.2	2.0/3.5	1.7	2.9	1.9	2.4	−2.1 (−2.0)	−1.9
Canada	2.8/3.7	3.0/4.1	3.3	3.4 (3.5)	1.8 (1.7)	2.2	2.1 (2.4)	2.2 (2.5)
Denmark	1.2/2.1	1.9/2.5	1.6	2.3 (2.4)	2.3	2.0	1.9 (1.7)	1.8 (1.7)
France	1.1/1.8	2.0/3.2	1.3 (1.4)	2.6 (2.7)	1.8	1.4	1.7	1.6
Germany	0.4/1.0	1.5/3.0	0.6 (0.7)	2.2 (2.3)	1.4	1.2	1.2	1.0 (1.1)
Italy	0.5/1.4	1.5/3.0	0.8 (1.0)	2.4 (2.5)	2.3	1.8 (1.9)	−0.1 nil	nil
Japan	−1.2/1.5	−0.1/3.0	−0.5 (−0.3)	1.0 (1.1)	−0.9 (−1.0)	−0.5	2.9 (2.8)	2.9 (2.8)
Netherlands	0.5/1.5	1.7/3.3	0.9 (1.0)	2.4 (2.5)	3.6	2.4 (2.3)	3.9 (4.0)	4.0 (4.2)
Spain	1.8/2.3	2.2/3.5	2.0 (2.1)	2.9 (3.0)	3.3	2.6 (2.7)	−2.1	−1.8
Sweden	1.4/2.0	2.2/3.1	1.8 (1.7)	2.7 (2.9)	2.3 (2.4)	2.0 (2.1)	3.2 (3.3)	3.2 (3.4)
Switzerland	0.5/2.0	1.3/3.7	0.9 (1.0)	2.2 (2.3)	1.0	1.2	10.0 (9.8)	10.2 (10.1)
United States	2.2/3.2	2.3/4.2	2.5 (2.7)	3.0 (3.4)	1.6	2.2	−4.5 (−4.4)	−4.1 (−4.7)
Euro area	0.7/1.4	1.9/3.0	1.0 (1.1)	2.4 (2.6)	2.1	1.6	0.5 (0.4)	0.5

Sources: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, Merrill Lynch, J.P. Morgan Chase, Morgan Stanley, Nordea, Decision Economics, BNP Paribas, Royal Bank of Canada, Schroder Salomon Smith Barney, Scotiabank, Shinsei Bank, UBS Warburg

Every month *The Economist* surveys a group of forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances for 15 countries and for the euro area. The table also shows the highest and lowest projections for growth. The previous month's forecasts, where different, are shown in brackets. Opinions about Japan are diverging: this month's range of projected growth rates is 2.7 percentage points for 2002 and 3.1 points for 2003. The panel expects a bigger contraction of Japanese GDP in 2002 and slower growth in 2003 than it did a month ago. It has also become less chirpy about the American economy, but still predicts that GDP will increase by 2.5% this year and by 3.0% in 2003. For the third successive month, the panel has become more pessimistic about the growth outlook in the euro area.

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Output, demand and jobs

Sep 5th 2002
From The Economist print edition

% change on year ago

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr*	1 year	2002	2003	latest	latest	latest	year ago
Australia	+ 2.4	+ 3.8 Q2	+ 4.0	+ 3.7	+ 4.3 Q1	+ 6.3 Q2	6.2 Jul	6.9
Austria	+ 0.3	– 0.6 Q1	+ 0.9	+ 2.4	+ 2.5 Jun	– 0.2 May	4.2 Jul	3.6
Belgium	+ 0.8	+ 0.3 Q2	+ 1.1	+ 2.7	– 4.1 Jun	– 4.2 Jun	12.0 Aug†	11.6
Britain	+ 2.4	+ 1.2 Q2	+ 1.7	+ 2.9	– 6.6 Jun	+ 4.5 Jul	5.1 Jun‡	5.0
Canada	+ 4.3	+ 3.2 Q2	+ 3.3	+ 3.4	+ 1.3 Jun	+ 4.3 May	7.6 Jul	7.0
Denmark	+ 4.4	+ 2.2 Q2	+ 1.6	+ 2.3	+ 4.2 Jun	+ 4.1 Jun	5.1 Jul	5.1
France	+ 2.0	+ 1.0 Q2	+ 1.3	+ 2.6	nil Jun	– 2.5 Jun	9.0 Jul††	8.7
Germany	+ 1.1	+ 0.1 Q2	+ 0.6	+ 2.2	– 2.3 Jun	– 1.7 Jul	9.6Aug†§	9.2
Italy	+ 0.9	+ 0.2 Q2	+ 0.8	+ 2.4	– 5.4 Jun	– 0.8 Jun	9.0 Apr	9.5
Japan	+ 1.9	– 0.9 Q2	– 0.5	+ 1.0	+ 3.3 Jul	– 3.5 Jun	5.4 Jul	5.0
Netherlands	+ 0.5	+ 0.1 Q2	+ 0.9	+ 2.4	– 3.0 Jun	– 2.1 May	2.4 Jul**	2.0
Spain	+ 1.8	+ 2.0 Q2	+ 2.0	+ 2.9	– 4.4 Jun	na	11.3 Jul	10.6
Sweden	+ 2.4	+ 2.1 Q2	+ 1.8	+ 2.7	– 1.3 Jun	+ 4.5 Jun	4.3 Jul†	4.2
Switzerland	+ 0.7	+ 0.2 Q1	+ 0.9	+ 2.2	– 8.8 Q1	– 3.0 Jun	2.7 Aug†	1.7
United States	+ 1.1	+ 2.1 Q2	+ 2.5	+ 3.0	+ 0.2 Jul	+ 6.3 Jul	5.9 Jul	4.6
Euro area	+ 1.3	+ 0.3 Q1	+ 1.0	+ 2.4	– 1.2 Jun	– 0.9 Jun	8.3 Jul	8.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	– 0.6	– 2.0 Q1	na	na	+ 5.1 Jul	+ 2.7 May	7.8 Jul†	7.6
Greece	na	+ 4.3 Q1	na	na	+ 2.4 Jun	+ 9.9 Apr	na	na
Iceland	na	+ 3.12001	na	na	+ 3.3 2001	na	2.3 Jul†	1.1
Ireland	na	+ 2.9 Q1	na	na	+16.0 Jun	– 0.5 Jun	4.3 Jul	3.7
Luxembourg	na	+ 3.52001	na	na	+ 4.3 May	– 9.1 Apr	2.7 May	2.4
New Zealand	+ 4.3	+ 4.0 Q1	na	na	+ 4.3 Q1	+ 8.3 Q2	5.1 Q2	5.3
Norway	– 1.1	+ 1.0 Q1	na	na	+ 5.3 Jun	+ 2.9 Jun	3.8 Q2	3.6
Portugal	+ 1.4	+ 1.4 Q1	na	na	– 0.7 Jun	– 1.5 Jun	4.5 Q2†	3.9

*% change at an annual rate. †Not seasonally adjusted. ‡April-June; claimant count rate 3.1% in July. §EU harmonised rate 8.3% in July. **May-Jul. ††Revised series.

Text refers only to the first 16 countries listed

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Prices and wages

Sep 5th 2002
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2002	2003	latest		year ago	latest		year ago
Australia	+ 2.8	Q2	+ 6.0	+ 2.8	+ 2.5	– 1.1	Q2	+ 5.6	+ 3.7	Q2	+ 4.4
Austria	+ 1.6	Jul	+ 2.8	+ 1.7	+ 1.7	– 1.0	Jul	+ 1.9	+ 2.4	Jul	+ 2.8
Belgium	+ 1.3	Aug	+ 2.7	+ 1.7	+ 1.5	– 0.2	Jul	– 0.4	+ 2.6	Q2	+ 2.6
Britain	+ 1.5	Jul	+ 1.6	+ 1.9	+ 2.4	+ 0.3	Jul	– 0.1	+ 3.9	Jun	+ 4.7
Canada	+ 2.1	Jul	+ 2.6	+ 1.8	+ 2.2	– 0.3	Jul	+ 0.8	+ 3.0	Jun	+ 1.5
Denmark	+ 2.2	Jul	+ 2.4	+ 2.3	+ 2.0	– 0.9	Jul	+ 2.7	+ 4.0	Q1	+ 3.8
France	+ 1.6	Jul	+ 2.1	+ 1.8	+ 1.4	– 1.5	Jun	+ 2.3	+ 3.9	Q1	+ 4.3
Germany	+ 1.0	Aug	+ 2.6	+ 1.4	+ 1.2	– 0.8	Jul	+ 2.2	+ 2.5	Jun	+ 1.9
Italy	+ 2.3	Aug	+ 2.8	+ 2.3	+ 1.8	+ 0.1	Jul	+ 1.3	+ 2.2	Jul	+ 2.5
Japan	– 0.8	Jul	– 0.8	– 0.9	– 0.5	– 2.2	Jul	+ 0.7	– 5.6	Jul	+ 0.7
Netherlands	+ 3.5	Jul	+ 4.6	+ 3.6	+ 2.4	– 0.4	Jul	+ 2.4	+ 3.0	Jul	+ 5.1
Spain	+ 3.4	Jul	+ 3.9	+ 3.3	+ 2.6	+ 0.6	Jul	+ 2.0	+ 4.0	Q1	+ 3.4
Sweden	+ 2.2	Jul	+ 2.9	+ 2.3	+ 2.0	– 0.8	Jul	+ 2.1	+ 2.9	Jun	+ 2.8
Switzerland	+ 0.5	Aug	+ 1.1	+ 1.0	+ 1.2	– 1.6	Jul	+ 0.2	+ 2.5	2001	+ 1.3
United States	+ 1.5	Jul	+ 2.7	+ 1.6	+ 2.2	– 1.1	Jul	+ 1.4	+ 3.2	Jul	+ 4.1
Euro area	+ 2.1	Aug	+ 2.7	+ 2.1	+ 1.6	– 0.6	Jul	+ 2.1	+ 3.3	Q1	+ 2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.8	Jul	+ 2.6	na	na	– 1.3	Jul	+ 0.7	+ 3.8	Q2	+ 4.9
Greece	+ 3.3	Jul	+ 3.9	na	na	– 0.1	Jun	+ 5.4	na		na
Iceland	+ 3.2	Aug	+ 7.9	na	na	+ 6.2	Aug	+ 6.9	+ 6.6	Jul	+ 8.1
Ireland	+ 4.2	Jul	+ 4.8	na	na	– 3.0	Jul	+ 4.5	+ 8.9	Q1	+ 7.4
Luxembourg	+ 2.0	Jul	+ 3.0	na	na	– 1.3	Jun	+ 0.1	+ 0.9	May	+ 2.7
New Zealand	+ 2.8	Q2	+ 3.2	na	na	+ 1.5	Q2	+ 8.1	+ 2.1	Q2	+ 1.8
Norway	+ 1.6	Jul	+ 2.7	na	na	– 9.4	Jul	– 3.2	+ 4.6	Q1	+ 4.4
Portugal	+ 3.4	Jul	+ 4.3	na	na	– 3.5	Jul	+ 1.3	– 0.2	Jun	– 0.6

Text refers only to the first 16 countries listed

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Money and interest rates

Sep 5th 2002
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Sep 4th 2002)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	– 4.1	+ 9.4	Jul	4.86	4.78	4.82	5.48	5.79	6.69
Britain	+ 8.6	+ 5.7	Jul	3.94	4.70	3.72	4.47	5.01	5.64
Canada	+17.2	+ 7.2	Jul	2.97	3.81	3.19	4.88	5.50	6.96
Denmark	+ 6.2	+10.2	Jul	3.50	4.62	3.74	4.64	5.11	6.84
Japan	+30.6	+ 3.3	Jul	0.02	0.02	0.02	1.17	1.34	1.24
Sweden	+ 2.2	+ 4.2	Jun	4.18	4.31	4.41	4.94	5.23	4.93
Switzerland	+10.9	+ 5.8	Jul	0.73	3.18	0.77	2.77	3.33	3.98
United States	+ 5.2	+ 7.4	Jul	1.73	3.37	1.99	3.95	4.97	6.39
Euro area†	+ 7.6	+ 7.1	Jul	3.33	4.27	3.30	4.37	4.84	5.33

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. Benchmarks: US 30-year 4.93%, Japan No.241 1.20%. Central bank rates: US fed funds 1.75%, ECB refinancing 3.25%, BOJ overnight call 0.001%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, DRI-WEFA, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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Stockmarkets

Sep 5th 2002
From The Economist print edition

Market indices

	Sep 4th	2002 high	2002 low	% change on one week	% change on record high	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
Australia (All Ordinaries)	3,047.5	3,440.0	2,937.8	- 1.4	-11.4	- 9.3	- 3.5
Austria (ATX)	1,124.5	1,357.2	1,113.5	+ 0.1	-35.3	- 1.4	+10.1
Belgium (Bel 20)	2,156.8	2,899.8	2,001.6	- 5.8	-41.4	-22.5	-13.5
Britain (FTSE 100)	4,026.9	5,323.8	3,777.1	- 5.8	-41.9	-22.8	-17.0
Canada (Toronto Composite)	6,517.7	7,958.1	6,161.1	- 0.9	-42.8	-15.2	-13.4
Denmark (KBX)	182.0	233.4	169.0	- 4.1	-39.7	-19.0	- 9.5
France (SBF 250)	2,148.1	3,081.9	2,067.7	- 6.6	-51.1	-27.9	-19.6
(CAC 40)	3,168.7	4,688.0	3,023.7	- 7.3	-54.2	-31.5	-23.5
Germany (Xetra DAX)	3,425.9	5,462.6	3,332.7	- 7.0	-57.5	-33.6	-25.9
Italy (BCI)	1,134.8	1,513.0	1,077.8	- 6.5	-48.0	-20.8	-11.6
Japan (Nikkei 225)	9,075.1	11,979.9	9,075.4	- 7.1	-76.7	-13.9	- 4.4
(Topix)	886.4	1,139.4	886.4	- 7.1	-69.3	-14.1	- 4.6
Netherlands (AEX)	349.7	531.2	318.5	- 7.3	-50.2	-31.0	-23.0
Spain (Madrid SE)	644.9	848.1	625.9	- 4.0	-43.7	-21.8	-12.7
Sweden (Affarsvarlden Gen)	147.6	236.8	143.1	- 4.6	-63.1	-36.2	-28.6
Switzerland (Swiss Market)	4,960.0	6,694.1	4,607.8	- 5.8	-41.0	-22.7	-12.9
United States (DJIA)	8,425.1	10,635.3	7,702.3	- 3.1	-28.1	-15.9	-15.9
(S&P 500)	893.4	1,172.5	797.7	- 2.7	-41.5	-22.2	-22.2
(Nasdaq Comp)	1,292.3	2,059.4	1,206.0	- 1.7	-74.4	-33.7	-33.7
Europe (FTSE Eurotop 300)*	905.5	1,279.7	862.3	- 6.0	-46.9	-28.2	-19.9
Euro area (FTSE Ebloc 100)*	759.2	1,125.1	732.5	- 6.9	-51.0	-31.7	-23.8
World (MSCI)†	803.9	1,024.4	756.7	- 3.7	-44.5	na	-19.9
World bond market (Salomon)‡	502.6	504.2	430.3	+ 1.5	- 0.3	na	+14.3

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Salomon Smith Barney World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Sep 5th 2002
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2002	Current account The Economist poll % of GDP, forecast 2003	Exchange rate trade-weighted† Sep 4th	Exchange rate trade-weighted† year ago	Currency units per $ Sep 4th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2002‡
Australia	− 1.3 Jul	− 11.6 Q2	− 3.7	− 3.8	72.2	72.2	1.84	1.92	2.87	1.82	1.56	0.1
Austria	− 2.0 May	− 1.3 Jun	− 2.2	− 1.9	na	100.1	1.01	1.13	1.57	–	0.85	-0.3
Belgium	+ 15.1 Jun	+ 11.8 Mar§	+ 5.0	+ 5.1	na	98.7	1.01	1.13	1.57	–	0.85	nil
Britain	− 45.6 Jun	− 31.2 Q1	− 2.1	− 1.9	105.9	107.3	0.64	0.69	–	0.64	0.54	-0.8
Canada	+ 34.0 Jun	+ 12.1 Q2	+ 2.1	+ 2.2	75.8	77.0	1.56	1.56	2.45	1.55	1.32	1.0
Denmark	+ 7.2 Jun	+ 3.5 Jun	+ 1.9	+ 1.8	103.4	102.1	7.47	8.38	11.7	7.43	6.33	2.2
France	+ 9.0 Jun	+ 28.4 Jun	+ 1.7	+ 1.6	na	101.3	1.01	1.13	1.57	–	0.85	-2.0
Germany	+100.6 Jun	+ 27.2 Jun	+ 1.2	+ 1.0	na	98.2	1.01	1.13	1.57	–	0.85	-2.8
Italy	+ 9.8 Jun	− 2.9 May	− 0.1	− 0.0	na	72.3	1.01	1.13	1.57	–	0.85	-1.4
Japan	+ 80.6 Jun	+107.0 Jun	+ 2.9	+ 2.9	136.6	140.3	118	120	185	117	–	-8.0
Netherlands	+ 23.7 Jun	+ 2.7 Q2	+ 3.9	+ 4.0	na	97.6	1.01	1.13	1.57	–	0.85	0.1
Spain	− 36.9 May	− 16.5 May	− 2.1	− 1.8	na	74.0	1.01	1.13	1.57	–	0.85	-0.3
Sweden	+ 14.7 Jul	+ 8.3 Jun	+ 3.2	+ 3.2	76.1	73.3	9.37	10.7	14.7	9.31	7.94	2.1
Switzerland	+ 3.0 Jul	+ 25.7 Q1	+10.0	+10.2	114.5	108.8	1.47	1.70	2.31	1.46	1.25	na
United States	−435.5 Jun	−398.1 Q1	− 4.5	− 4.1	112.5	118.6	–	–	1.56	0.99	0.85	-1.0
Euro area	+ 79.2 Jun	+ 24.8 Jun	+ 0.5	+ 0.5	82.0	78.0	1.01	1.13	1.57	–	0.85	-1.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 12.6 Jun	+ 8.6 Jun	na	na	na	78.2	1.01	1.13	1.58	–	0.86	3.2
Greece	− 18.8 Mar	− 6.7 Mar	na	na	na	57.3	1.01	1.13	1.58	–	0.86	0.4
Iceland	+ 0.1 Jul	− 0.2 Q1	na	na	na	na	88.1	99.8	138	87.6	74.7	-0.5
Ireland	+ 33.5 Jun	− 0.4 Q1	na	na	na	86.8	1.01	1.13	1.58	–	0.86	0.1
Luxembourg	− 2.7 Jun	+ 1.7 Q1	na	na	na	98.7	1.01	1.13	1.58	–	0.86	2.2
New Zealand	+ 0.1 Jul	− 1.2 Q1	na	na	84.5	81.9	2.14	2.31	3.35	2.13	1.82	0.1
Norway	+ 24.9 Jul	+ 26.1 Jun	na	na	105.2	96.6	7.46	8.94	11.7	7.41	6.32	14.0
Portugal	− 12.6 Jun	− 9.5 Jun	na	na	na	89.1	1.01	1.13	1.58	–	0.86	-2.4

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD forecast. §New series.

Text refers only to the first 16 countries listed

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The Economist commodity price index

Sep 5th 2002
From The Economist print edition

1995=100

	Aug 27th	Sep 3rd*	% change on one month	% change on one year
Dollar index				
All items	73.2	73.8	+ 2.5	+ 9.1
Food	77.1	78.3	+ 3.6	+14.3
Industrials				
All	68.0	67.8	+ 0.8	+ 1.8
Nfa†	68.0	70.7	+ 0.2	+ 5.5
Metals	65.5	65.3	+ 1.2	- 1.4
Sterling index				
All items	75.5	74.5	+ 0.8	+ 0.9
Euro index				
All items	98.3	97.4	- 0.8	- 2.5
Yen index				
All items	92.1	92.0	- 0.7	+ 7.5
Gold				
$ per oz	310.85	313.95	+ 2.7	+15.3
West Texas Intermediate				
$ per barrel	28.83	27.77	+ 2.3	+ 3.0

* Provisional. † Non-food agriculturals.

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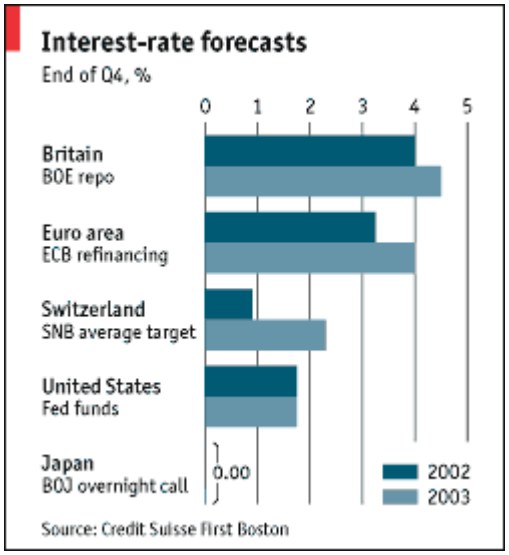
Interest-rate forecasts

Sep 5th 2002
From The Economist print edition

Interest rates will stay on hold in America for the next 15 months, forecasts CSFB. It expects rates to rise in the euro area by three-quarters of a percentage point next year.



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Overview

Sep 5th 2002
From The Economist print edition

Argentina's economic woes intensified as consumer-price inflation accelerated to 36.7% in the year to August. Industrial production fell by 11.2% in the year to July.

GDP in the **Philippines** grew by 4.5% in the year to the second quarter, the fastest rate for almost two years. **Hungary's** economy grew by 3.1% over the same period.

Industrial production rose by 9.6% in **Thailand** in the year to July.

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Infant mortality

Sep 5th 2002
From The Economist print edition

About 11m children below the age of five die every year around the world from preventable conditions such as malnutrition or illnesses caused by dirty air and water. Child-mortality rates are highest in Afghanistan and several countries in sub-Saharan Africa. In Zambia, Kenya and Zimbabwe, rates are now higher than in 1980. However, they have fallen by more than half in India, Indonesia and Peru over the past two decades. Two years ago, the United Nations agreed to a target to cut child-mortality rates by two-thirds by 2015. This objective may be helped by the agreement at the Johannesburg summit to achieve access to basic sanitation for more of the world's poor.

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Economy

Sep 5th 2002
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 8.0	Q2	+12.8	Jul	– 0.9	Jul	+28.3	Jul	+17.4	2001	241.9	May
Hong Kong	+ 0.5	Q2	–11.6	Q1	– 3.4	Jul	– 8.2	Jul	+14.1	Q1	112.3	Jul
India	+ 6.4	Q1	+ 4.0	Jun	+ 3.9	Jul	– 5.1	Jul	+ 1.4	Q1	56.5	Jul
Indonesia	+ 3.5	Q2	– 9.4	Q4	+10.6	Aug	+27.3	Jul	+ 8.4	Q3	29.5	Jul
Malaysia	+ 3.8	Q2	+ 4.9	Jun	+ 2.1	Jul	+13.4	Jul	+ 7.0	Q1	32.8	Jul
Philippines	+ 4.5	Q2	+ 5.9	Jun	+ 2.9	Aug	+ 2.6	Jun	+ 6.2	May	13.5	Jul
Singapore	+ 3.9	Q2	+17.8	Jul	– 0.4	Jul	+ 6.4	Jul	+17.5	Q2	80.3	Jul
South Korea	+ 6.3	Q2	+ 8.9	Jul	+ 2.4	Aug	+ 9.8	Aug	+ 5.3	Jul	115.4	Jul
Taiwan	+ 3.0	Q2	+11.4	Jul	+ 0.4	Jul	+18.6	Jul	+24.8	Q2	155.3	Jul
Thailand	+ 3.9	Q1	+ 9.6	Jul	+ 0.3	Aug	+ 3.8	Jul	+ 6.5	Jul	37.0	Jul
Argentina	–16.3	Q1	–11.2	Jul	+36.7	Aug	+12.6	Jun	nil	Q1	9.0	Jul
Brazil	+ 1.0	Q2	+ 0.7	Jun	+ 7.5	Jul	+ 7.4	Aug	–16.7	Jul	39.1	Jul
Chile	+ 1.7	Q2	+ 8.6	Jul	+ 2.1	Aug	+ 2.7	Jul	– 0.6	Q2	15.0	Jul
Colombia	+ 0.5	Q1	– 1.2	Jun	+ 6.2	Jul	+ 0.5	Jun	– 1.4	Q1	10.6	Jul
Mexico	+ 2.1	Q2	– 0.7	Jun	+ 5.5	Jul	– 9.1	Jul	–16.3	Q2	46.1	Jul
Peru	+ 3.6	Jun	+ 2.8	May	nil	Jul	+ 0.2	Jun	– 1.0	Q2	9.2	Jul
Venezuela	– 9.9	Q2	–17.1	Jun	+22.0	Jul	+ 8.0	Q1	+ 1.9	Q2	7.6	Jun
Egypt	+ 4.9	2001†	+ 7.8	2001†	+ 2.7	Jun	– 8.2	Apr	– 0.1	Q1	12.7	Apr
Israel	– 1.7	Q2	+ 1.6	Jun	+ 6.9	Jul	– 6.3	Jul	– 2.3	Q1	24.5	Aug
South Africa	+ 2.2	Q2	– 0.1	Jun	+10.6	Jul	+ 3.1	Jul	– 0.1	Q1	6.0	Jul
Turkey	+ 2.3	Q1	+ 6.6	Jun	+40.2	Aug	–10.3	Jun	+ 2.0	May	23.2	Jul
Czech Republic	+ 2.5	Q2	+ 1.3	Jun	+ 0.6	Jul	– 2.5	Jun	– 2.3	Q2	21.4	Jul
Hungary	+ 3.1	Q2	+ 4.1	Jun	+ 4.6	Jul	– 2.4	Jul	– 2.1	Jul	10.3	Jul
Poland	+ 0.5	Q1	+ 6.0	Jul	+ 1.3	Jul	–10.4	Jul	– 6.4	Jul	27.1	Jul
Russia	+ 3.7	Q1	+ 7.8	Jul	+15.2	Aug	+42.4	Jun	+28.3	Q2	39.6	Jul
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+21.3	Apr	+ 4.4	Jun	– 1.2	Jul	+ 0.3	2001†	4.8	Jun
Saudi Arabia	+ 1.2	2001	na		– 0.2	Apr	+44.1	2001	+14.5	2001	18.1	Jul

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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Financial markets

Sep 5th 2002
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Sep 4th		Dec 31st 2001	
	Sep 4th	year ago	Sep 4th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	13.0	na	1,736.8	-0.8	+ 1.4	+ 1.4
Hong Kong	7.80	7.80	12.2	1.73	9,820.3	-3.1	- 13.8	- 13.9
India	48.4	47.2	75.8	5.76	3,173.4	+2.4	- 2.7	- 3.1
Indonesia	8,870	9,055	13,878	14.83	420.4	-5.1	+ 7.2	+ 25.7
Malaysia	3.80	3.80	5.95	3.20	707.9	-2.3	+ 1.7	+ 1.7
Philippines	51.8	51.2	81.1	7.00	1,114.0	+0.4	- 4.6	- 5.0
Singapore	1.75	1.75	2.73	0.88	1,457.5	-3.2	- 10.2	- 5.2
South Korea	1,192	1,277	1,865	4.80	723.1	-0.1	+ 4.2	+ 14.9
Taiwan	34.2	34.6	53.5	2.10	4,534.2	-5.3	- 18.3	- 16.4
Thailand	42.2	44.3	66.0	2.00	351.9	-3.6	+ 15.8	+ 21.4
Argentina	3.64	1.00	5.69	68.70	373.7	-0.9	+ 26.5	- 65.2
Brazil	3.14	2.56	4.92	17.82	9,996.9	-3.7	- 26.4	- 45.9
Chile	717	664	1,123	2.40	4,905.2	-0.7	- 9.1	- 16.3
Colombia	2,703	2,315	4,228	8.00	1,191.3	+0.1	+ 11.2	- 6.3
Mexico	10.02	9.25	15.7	6.90	6,114.4	-0.0	- 4.0	- 12.2
Peru	3.63	3.48	5.69	3.25	1,185.8	-0.4	+ 0.9	- 4.4
Venezuela	1,432	740	2,240	30.08	6,835.4	-1.3	+ 4.0	- 44.9
Egypt	4.60	4.26	7.20	7.15	5,230.9	-0.6	- 0.8	- 1.3
Israel	4.73	4.29	7.40	6.40	357.3	-2.9	- 20.0	- 25.4
South Africa	10.7	8.50	16.7	12.45	9,498.0	-2.2	- 9.0	+ 2.2
Turkey	1,628,500	1,413,500	2,547,951	42.00	9,469.8	+0.8	- 31.3	- 38.6
Czech Republic	30.5	38.4	47.8	3.04	439.7	-3.2	+ 11.4	+ 29.8
Hungary	247	283	386	9.76	7,336.8	-4.7	+ 2.9	+ 14.5
Poland	4.13	4.24	6.46	8.30	12,857.1	-4.6	- 7.7	- 11.6
Russia	31.6	29.5	49.5	21.00	334.3‡	-3.8	+ 33.4	+ 28.6
EMF (MSCI)*	1.00	1.00	1.56	na	291.3	-2.2	na	- 8.2
EMBI+†	1.00	1.00	1.56	na	206.8	+0.4	na	+ 3.2

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms.
Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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